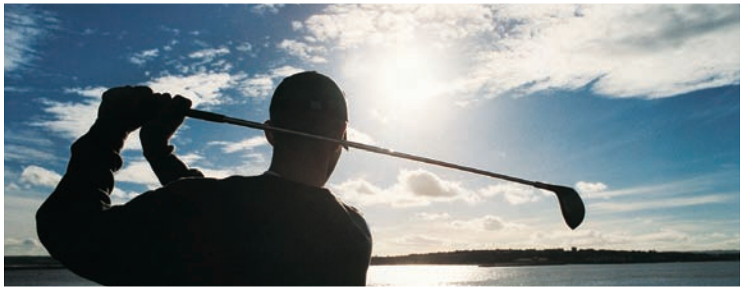
2007–2013 strategic marketing plan

CTTC: CALIFORNIA TRAVEL AND TOURISM COMMISSION



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ACKNOWLEDGEMENTS

Many people contributed their industry expertise, insight, time and guidance in developing CTTC's 5-Year Strategic Marketing Plan. The CTTC acknowledges the following:

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Presented May 15, 2007
California Travel and Tourism Commission

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"…to promote California as one of the world's premier travel destinations in order to increase travel related revenues and tourism employment in California."

PURPOSE OF THE DOCUMENT

The CTTC's overall 5-year strategic marketing plan and individual fiscal year 2007/2008 tactical work plans serve to guide CTTC in meeting its mission: "...to promote California as one of the world's premier travel destinations in order to increase travel related revenues and tourism employment in California."

This document was created to help CTTC strategically manage an annual budget of $50 million annually through 2013 to increase tourism revenues for the benefit of California's overall economic development. Five core strategies have been identified to position California as a premier travel destination domestically, overseas and in Mexico and Canada over the course of the next five years. While the core strategies will remain constant, tactical work plans concentrating on specific marketing programs will be updated annually to reflect upon the core strategies' success.

The plan is divided into three components: 5-Year Strategic Marketing Plan, domestic annual work plans, and international country plans. The 5-Year Strategic Marketing Plan outlines the major benchmarks that need to be achieved in order for California to gain the market share that will position the Golden State as one of the world's premier travel destinations. The annual work plans explain in detail how and where $50 million in tourism program funds will be spent each year to reach CTTC's goal of increasing travel spending and tourism employment in California.

This document was created to help CTTC strategically manage an annual budget of $50 million annually through 2013 to increase tourism revenues for the benefit of California's overall economic development.

The plan is divided into three components:

5 Year Strategic Marketing Plan

Domestic Annual Work Plans

International Country Plans

A 33-member statewide Marketing Committee provides input in developing the annual marketing plan and related promotional activities.

EXECUTIVE SUMMARY

The California Travel and Tourism Commission's (CTTC) 5-Year Strategic Marketing Plan is a comprehensive framework built to guide and support CTTC's collaborative and progressive global marketing initiatives through 2013, based on an unprecedented annual budget of $50 million. This document is divided into three sections: 5-Year Strategic Marketing Plan, Domestic Annual Work Plans, and International Country Plans.

BACKGROUND

As the only tourism organization in California that provides a statewide platform for promoting California as a premier destination to prospective leisure travelers, CTTC targets domestic and international markets to position the state as the top leisure destination of choice. The CTTC additionally serves industry partners by providing outreach opportunities to maximize funds that may otherwise be restricted to local and regional marketing efforts.

The CTTC serves the State by supporting, maintaining and increasing domestic and international inbound travel to California for the purpose of increasing visitor spending, tax revenues, and employment opportunities. Direct travel spending in California in 2006 accounted for $93.8 billion, while California's vast tourism industry directly supported jobs for approximately 929,000 people. Travel and tourism generated $5.6 billion in state and local tax revenue in 2006.

FUNDING

California Tourism enters the next five years with the largest annual tourism budget in the State's history—$50 million. While funding levels of this magnitude will allow CTTC to significantly expand the breadth and scope of current marketing programs, it is important to note that CTTC will now be able to engage deeply in critical research and long-term program planning for the benefit of California's economic development far beyond 2013.

Since its inception in 1998, CTTC's funding levels have been inconsistent and at risk of major budget cuts at the State level. In FY 2005/2006, the State and the CTTC agreed to a 60/40 funding split with assessed businesses contributing 60 percent to the overall marketing budget. The partnership restored $7.3 million in state funding and provided $10.95 million in industry funding for a total marketing budget of $18.25 million.

A new tourism assessment program for the Passenger Car Rental Industry, enacted in 2006 when Governor Schwarzenegger signed AB 2592 into law, further increased California Tourism's budget. In addition to assessment collections from the accommodations, restaurants and retail, transportation services and attractions and recreation segments, this landmark legislation allocated $25 million for FY 2006/2007 and $50 million for FY 2007/2008 for tourism marketing.

Funding levels of $25 million allowed California to achieve a year-round advertising presence. With $50 million, CTTC will be able to significantly strengthen and expand current marketing and advertising efforts in key existing domestic and international markets, and introduce the California brand to domestic and international opportunity markets. Increased funding will also allow CTTC to reach out to niche markets with volume/revenue potential, expand seasonal coverage to drive year-round visitation, and invest in technology to reach global mass markets.

In the face of increasing global competition, CTTC's plan is to use the increased funding levels where they are most needed: advertising and technology. To remain competitive, the ability to go direct-to-consumer with advertising and enhanced technology platforms in key international markets (including a more international-friendly Web site in several languages and market-driven content) are expected to have the most influence in driving CTTC programs over the next five years. Advertising and technology represent approximately 70 percent of the proposed $50 million budget. Advertising remains the largest program expenditure with technology and international programs being new areas of investment as compared to past years' budgets.

COMPETITION

Competing states have consistently received increased funding for marketing programs in recent years, threatening California's tourism market share and ranking as the top state for visitation. Until the new $50 million budget for FY 2007/2008 was approved, CTTC's marketing expenditures fell below that of the top 10 states' expenditures. With this new budget, California will, for the first time, be among the top five states for overall budgets.

Based on market share and media spending, California's main competitors for domestic travelers are Florida, Texas, New York and Nevada, with major destination cities such as Orlando, New York City and Las Vegas also investing marketing dollars at major levels. According to Competitive Media Reporting, Texas and Florida are traditionally the top spenders on marketing; each invested nearly $20 million on domestic media in 2006. CTTC continues to analyze and monitor international competitive sets in such markets as Australia/New Zealand (outdoor adventure), Paris (romance, 5-star cuisine, wine) and Dubai (beaches, luxury resorts) that attract visitors from around the world.

MARKET DYNAMICS

In-state visitors represent the highest volume of travelers in California. In 2005, California residents represented 80 percent, or 279.8 million person-stays, and $42 billion in travel spending. Residents spend an estimated $435 per person/per trip in California.

California's primary out-of-state domestic leisure markets are Washington, Oregon, Nevada, Arizona, New Mexico and Utah. Leisure visitors from these states totaled 19.3 million, or 51 percent of non-resident leisure travel to California in 2005. These primary markets are important to maintain, yet anticipated growth is limited due to the high existing penetration. Opportunities exist in national markets that contribute to higher per-person spending, as much as $658 per person/per trip.

National markets presenting the greatest opportunity for California over the next five years include Texas, New York and Illinois. Travel spending in California generated by out-of-state visitors in 2005 was $28 billion.

Seventy-five percent of California's international visitors come from five primary markets: U.K., Japan, Germany, Australia/New Zealand and Mexico. In 2005, international visitors totaled 14.4 million in California, and generated $12 billion in travel spending. CTTC will continue to develop relationships with international markets and explore in-country opportunities with Canada, Scandinavia, France, and Brazil. Due to significant trends in market and economic growth, emerging markets such as China, Korea and India will be explored for opportunities extending beyond 2013.

GUIDING PRINCIPLES

CTTC's 5-Year Strategic Marketing Plan abides by the following guiding principles:

- Do what the industry cannot do for itself—CTTC will provide a statewide marketing platform to promote the California brand;
- Leverage cooperative programs and focus on international and new market development—CTTC will introduce the California brand to far-reaching audiences and establish strategic alliances with trusted in-market brands;
- Evaluate programs' Return On Investment (ROI) and measures on major programs—CTTC will track and evaluate market penetration and program impact on attracting leisure travelers;
- Focus on out-of-state and international audiences—CTTC marketing programs will serve to attract new consumers to California, while providing industry partners with opportunities to reach new markets that are otherwise cost-prohibitive;
- Support assessed businesses—CTTC will be a resource to assessed tourism businesses by providing marketing opportunities, a technology platform to reach mass consumers, and tourism research material vital to the success of their operation;
- Establish a technology platform for all programs—CTTC will use technology and innovation to create targeted, timely and cost-effective brand messages for the industry, including assessed businesses, travel trade, media, and consumers; and
- Align with key California CVBs to coordinate resources based on high impact programs and initiatives.

KEY STRATEGIES

The 5-Year Strategic Marketing Plan is driven by five core strategies:

- Protect and maintain volume in domestic primary markets;
- Reach new visitors in national opportunity markets;
- Expand marketing and seasonal coverage to drive year-round visitation;
- Deepen efforts in primary international markets; and
- Develop technology platform to extend reach and impact.

Protect and maintain volume in domestic primary markets.

This strategy will be met by developing new and compelling reasons for Washington, Oregon, Nevada, Arizona, New Mexico and Utah residents to continue visiting California. Message delivery will be achieved through brand advertising via broadcast media, technology and public relations tactics. Success will be measured by market share and visitor spending.

Reach new visitors in national opportunity markets.

This strategy will be met by attracting visitors from affluent, high population regions in states such as New York, Texas and Illinois. Brand advertising with concentration in broadcast media, and technology will be the leading mechanisms in driving market share. Success will be measured by market share, visitor spending, and message/brand recall obtained through market research.

Expand marketing and seasonal coverage to drive year-round visitation.

This strategy will be met by targeting niche markets such as Baby Boomers and culinary travelers who are prone to travel during off-season time periods. Seasonal outreach was successfully tested in FY 2005/2006 with the California Snow campaign. Brand advertising, technology, cooperative promotions and public relations programs will drive achievement. Success will be measured by niche market share and industry partner participation.

Deepen efforts in primary international markets.

This strategy will be met by expanding in-country marketing programs with travel trade, and communicating directly with consumers in the U.K., Germany, Japan, Australia, Canada, and Mexico. (CTTC will continue to monitor secondary and emerging international markets for opportunities based on visa regulations, economic development, and visitor volume.) Technology, such as local language versions of www.visitcalifornia.com, will be an important tool in achieving this strategy. Travel trade, international office representatives, publications, and public relations programs will also affect achievement. Success will be measured by market share, California travel trade products, and visitor spending.

Develop technology platform to extend reach and impact.

This strategy will be met through easily accessible, high-tech communications tools such as electronic travel guides, maps, and other trip planning information. Technology is expected to have the greatest impact in developing California brand awareness in domestic and international markets. Web-based communications will be CTTC's most cost-effective tool for marketing effectively, often and directly with consumers, travel trade, media, and assessed businesses. Innovative programming, including local language versions of www.visitcalifornia.com, will allow California Tourism to live up to the State's global reputation as a pioneer in technology. Success will be measured by Web site statistics and click-throughs to CVBs and industry partners' Web sites via California Tourism portals.

ANNUAL WORK PLANS

The strategies' results will be achieved through purposeful and calculated domestic and international annual work plans that address specific actions within the marketing set: brand advertising, cooperative promotions, technology, publications, PR and communications, travel trade, research, rural tourism and California Welcome Centers. Annual work plans are designed to evolve from year to year, as dictated by program and market needs.


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business plan

Total direct travel spending in California in 2006 was $93.8 billion, while tourism supported jobs for approximately 929,000 people, up 2 percent from 2005. Travel and tourism generated $5.6 billion in state and local tax revenue in 2006.

MARKET IMPACT OF TOURISM			
	2005	2006	CHANGE
2005 DIRECT EXPENDITURES	$88.5 billion	$93.8 billion	+6.0%
2005 EMPLOYMENT	910,000	929,000	+2.0%
TAX REVENUES			
STATE	$3.4 billion	$3.5 billion	+4.5%
LOCAL	$1.9 billion	$2.1 billion	+8.6%

SOURCE: DEAN RUNYAN ASSOCIATES, 2007

MISSION

The mission of CTTC, in partnership with the State and travel industry, is to promote California as one of the world's premier travel destinations, in order to increase revenue and tourism employment within California.

VISION

The CTTC will be the recognized source, in partnership with the State and travel industry, for statewide marketing planning and implementation, and information and support to California's vast travel and tourism industry, thereby maintaining California's position as one of the world's pre-eminent travel and tourism destinations.

GOAL

CTTC will act as a catalyst to increase travel spending and tourism employment in California.

MARKET IMPACT OF TOURISM

The CTTC serves the state and its residents by supporting, maintaining and increasing domestic and international inbound travel to California for the purpose of increasing visitor spending, tax revenues, and employment opportunities. Total direct travel spending in California in 2006 was $93.8 billion, while tourism supported jobs for approximately 929,000 people, up 2 percent from 2005. Travel and tourism generated $5.6 billion in state and local tax revenue in 2006 (Dean Runyan Associates, 2007).

Historical indicators show that the rate of travel spending growth has averaged 2.8 percent each year since 1998. Travel-related employment grew 1.3 percent each year on average in the time period 1992–2005 (Dean Runyan Associates).

GUIDING PRINCIPLES

The CTTC is the only tourism organization in California that provides a statewide platform for promoting the California brand to leisure travelers. CTTC marketing programs target out-of-state and international markets to position California as the top leisure destination of choice. CTTC serves industry partners by providing outreach opportunities to businesses that may otherwise be focused on local and regional marketing efforts, or niche markets outside of the leisure traveler audience.

An established framework of guiding principles directs all CTTC marketing programs aimed at increasing leisure traveler market share. CTTC's 5-Year Strategic Marketing Plan and annual work plans abide by the following guiding principles:

Do what the industry cannot do for itself

CTTC will provide a statewide marketing platform to promote the California brand.

Leverage cooperative programs and focus on international and new market development

CTTC will introduce the California brand to far-reaching audiences and establish strategic alliances with trusted in-market brands.

Evaluate program measures and return on investment (ROI) for major programs

CTTC will track and evaluate market penetration and program impact on attracting leisure travelers.

Focus on out-of-state and international audiences

CTTC marketing programs will serve to attract new consumers to California, while providing industry partners with opportunities to reach new markets that are otherwise cost-prohibitive.

Support assessed businesses

CTTC will be a resource to assessed tourism businesses by providing marketing opportunities, a technology platform to reach mass consumers, and tourism research material vital to the success of their operation.

Establish a technology link for all programs

CTTC will use technology and innovation to create targeted, timely and cost-effective brand messages for the industry, including assessed businesses, travel trade, media, and consumers.

Align with key California Convention & Visitors Bureaus (CVBs)

CTTC will coordinate resources based on high-impact programs and initiatives.

At $25 million (CTTC budget for FY 2006/2007), California ranked 6th behind (in descending order) Hawaii, Illinois, Pennsylvania, Florida and Texas for state tourism marketing budgets within the United States.

COMPETITIVE FUNDING LANDSCAPE
FY 2005/2006 PROJECTED STATE TOURISM OFFICE BUDGETS

RANK	STATE	BUDGET
1	HAWAII	$69,200,000
2	ILLINOIS	47,816,637
3	PENNSYLVANIA	31,832,000
4	FLORIDA	30,761,456
5	TEXAS	28,373,924
6	CALIFORNIA ('06/07)	25,000,000
7	WEST VIRGINIA	24,432,108
8	ARIZONA	18,361,935
9	LOUISIANA	18,042,206
10	SOUTH CAROLINA	16,977,286
11	TENNESSEE	16,694,600
12	VIRGINIA	16,580,905
13	UTAH	15,592,700
14	MICHIGAN	15,769,189
15	KENTUCKY	15,723,300

SOURCE: TIA—COMPARISONS MADE BASED ON COMPETITIVE STATE'S BUDGETS REPORTED FOR '05/06 AND CALIFORNIA'S '06/07 BUDGET

FUNDING

Until the early 1990s, California's tourism industry lacked the funds and industry financial support to compete with destinations that had large, dedicated tourism promotion funding. While state tourism funding in California reached $7.2 million in 1992, industry leaders agreed that they would need to contribute to the marketing efforts in order to bring California to a competitive spending level. In 1995, SB 256 was signed into law. The legislation authorized an industry-wide vote in 1997 that gave CTTC legal standing and established matching funds whereby the State and industry partners would contribute assessment funds to market California. The private sector has a statutory provision to allow them to terminate the assessment should the public sector withdraw support for the program. The program is renewable by industry vote as a referendum every six years. The next referendum goes to the industry for vote November 2007. This public-private partnership doubled California Tourism's marketing budget to $14 million, allowing California to more effectively compete with other well-funded destinations. California doubled its advertising campaign and strengthened its international marketing efforts overseas.

Facing a $34 billion state budget deficit in 2003, Governor Davis called for the elimination of California Tourism's $7.3 million in state tourism funding. The budget was signed into law in August 2003 with no public funds allocated to tourism marketing. At that time, California dropped from 14th place to 31st in the nation in overall state tourism budgets, and was the only state in the nation without public investment in tourism marketing efforts.

In FY 2004/2005, the state of California's decision to restore public funding renewed the public-private partnership and resulted in a significant increase in funding. In FY 2005/2006, the State and the CTTC agreed to a 60/40 funding split with assessed businesses contributing 60 percent to the overall marketing budget. The partnership restored $7.3 million in state funding and provided $10.95 million in industry funding for a total marketing budget of $18.25 million. California was now able to achieve a national year-round advertising presence for the first time. In the past, marketing campaigns were relegated to spring and fall due to limited funding. California, in conjunction with ski industry partners, debuted the "Winter in California" campaign in fall 2006 that was anchored by a 30-second television commercial starring Governor Schwarzenegger and celebrity skiers and snowboarders.

The momentum continued in FY 2006/2007 when a new tourism assessment program for the Passenger Car Rental Industry was enacted in 2006. Governor Schwarzenegger signed AB 2592 into law in September 2006, allowing the industry to collect assessments on passenger car rentals at airports, hotels and other overnight lodging facilities. Collections began January 1, 2007. The assessment fee is structured as a pass-through to consumers and charges .025 percent of the total passenger car rental bill, or 2.5 cents on the dollar. For example, a $50 car rental bill will include $1.25 California Tourism surcharge.

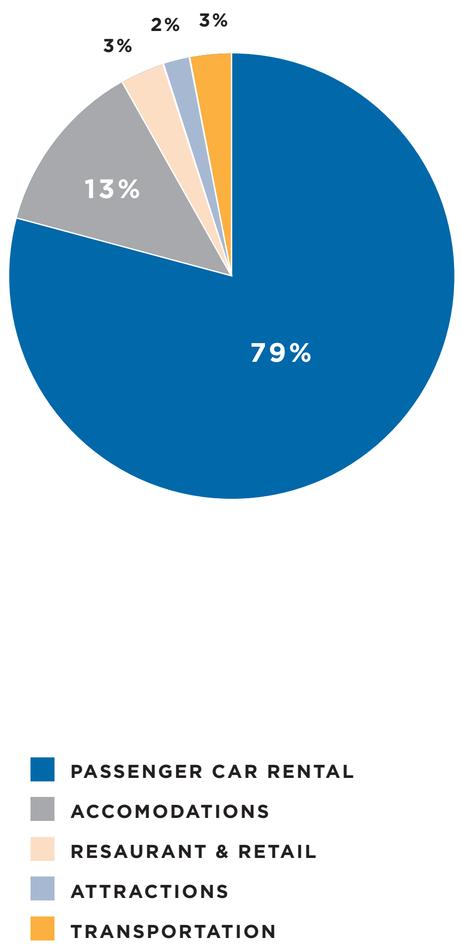
Along with assessment collections from the accommodations, restaurants and retail, and attractions and recreation segments, this landmark legislation would allocate $25 million for FY 2006/2007 and $50 million for FY 2007/2008—the largest tourism marketing budget in California Tourism's history. AB 2592 also reverted $6.3 million in General Fund monies previously allocated to the CTTC back to the State's General Fund. State funding was reduced from $7.3 million to $1 million in FY 2006/2007, and is scheduled to remain unchanged in FY 2007/2008.

With funding levels of $25 million in FY 2006/2007, California maintained its national level campaigns, began to strengthen international efforts, achieved a year-round advertising presence, and launched an improved California-branded Web site. With a $50 million budget, CTTC will be able to further augment and expand current marketing and advertising efforts in key existing domestic and international markets, and introduce the California brand to domestic and international opportunity markets. Increased funding will also allow CTTC to reach out to niche markets with volume/revenue potential, expand seasonal coverage to drive year-round visitation, and invest in technology to reach global mass markets.

At $25 million, California ranked 6th behind (in descending order) Hawaii, Illinois, Pennsylvania, Florida and Texas for state tourism marketing budgets within the United States. CTTC's increased funding to $50 million places California 2nd in the United States among all state tourism budgets, pending competitor budgets remain unchanged.

Assessment contributions for FY 2007/2008 are estimated at $50 million as a result of AB 2592.

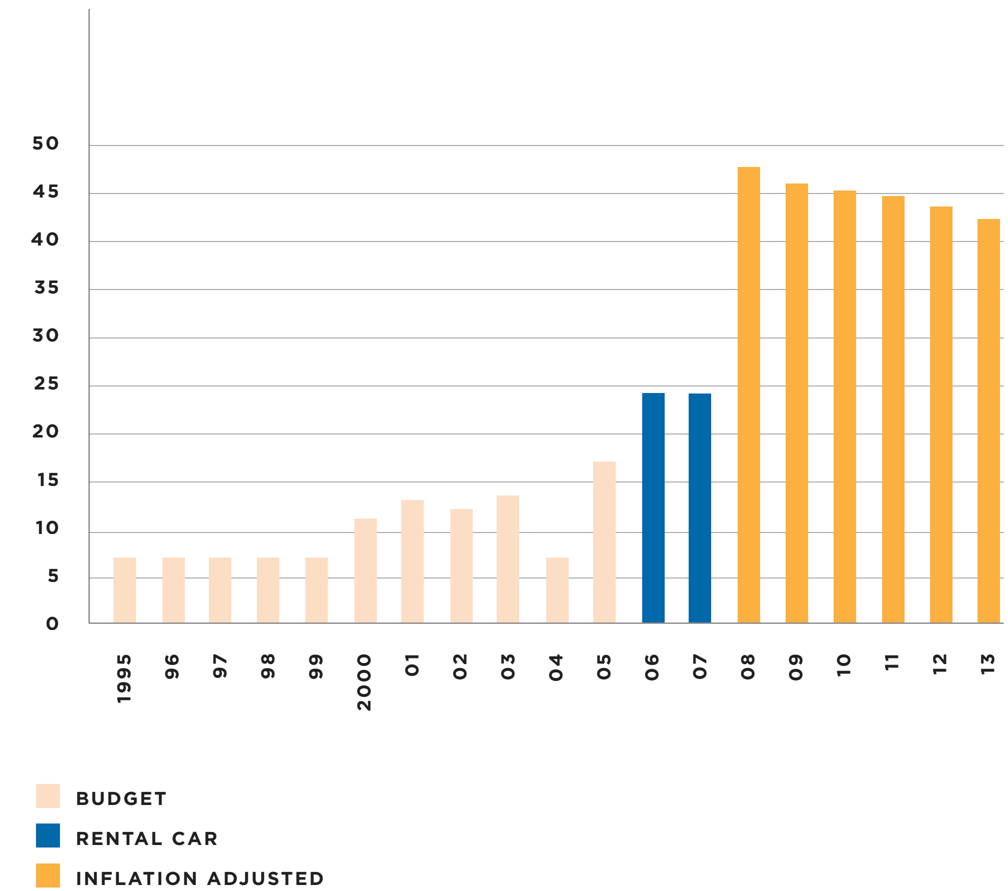
INDUSTRY SEGMENT



Moving beyond FY 2007/2008, State funding is expected to continue, but at a smaller percentage of the overall budget. Private funding will make up and exceed the difference, as evidenced by $39.8 million in assessment contributions for FY 2007/2008 as a result of AB 2592. Pending the outcome of the November 2007 referendum vote, it is anticipated that assessment funds will contribute approximately $240 million until the next referendum in 2013.

Stable funding will provide for an unprecedented level of planning and market outreach, including year-round programming and enhanced international efforts. While $50 million is a quantum leap for fiscal year 2007/2008, this fixed budget amount over the next six years will represent a decrease in spending power due to the time-value of money and likely increases in domestic competitors' marketing budgets.

BUDGET
WITH INFLATION EFFECT 2008–2013



SOURCE: CTTC

CTTC's enhanced marketing program will include protocols for tracking and measuring program successes in relation to ROI on a $50 million budget. Moving forward, programs with controlled outcomes will be measured annually within each program's tactical work plan.

CALIFORNIA TOURISM BENCHMARKS: 2011				
	DOMESTIC 2005	DOMESTIC 2011	INTERNATIONAL 2005	INTERNATIONAL 2011
REVENUE (SPENDING IN CA)	**$70 billion**	**$88.6 billion**	**$12 billion**	**$15.2 billion**
VOLUME	**335.4 million**	**419 million**	(Overseas) **4.8 million**	(Overseas) **5.9 million**
MARKET SHARE	**11.08%**	**11.6%**	(Overseas) **22.1%**	(Overseas) **22.1%**
LEISURE VOLUME	**244.3 million**	**310 million**	(Overseas) **2.9 million**	(Overseas) **3.8 million**
LEISURE MARKET SHARE	**10.85%**	**11.5%**	(Overseas) **19.4%**	(Overseas) **22.0%**

NOTE: OVERSEAS FIGURES EXCLUDE CANADA AND MEXICO

SOURCE: DEAN RUNYAN ASSOCIATES, 2006; CIC REASEARCH INC.; D.K. SHIFFLET & ASSOCIATES LTD. DIRECTIONS® DESTINATION PERFORMANCE/MONITOR SM, 2006; CALIFORNIA TOURISM, 2007

BENCHMARKS

CTTC will track and measure program successes in relation to ROI on a $50 million budget to gauge long- and short-term progress in meeting CTTC's primary goal of increasing travel spending and tourism employment in California. Each marketing program (ie: brand advertising, technology, public relations, etc.) will be driven by annual work plans developed to achieve the 5-Year Plan's overall strategies. Benchmarks were not considered in past campaigns due to relatively low spending compared to consumer volume.

The overall success of CTTC's 5-Year Strategic Marketing Plan will be measured by California tourism's contributions to the State's economy through 2013. Program successes measured on an annual basis will be determined by such indicators as:

- Market share
- Visitor volume
- Ad effectiveness studies/brand message recall
- Web site statistics
- Conversion/packages and room nights booked in connection with www.visitcalifornia.com
- Public relations ROI
- Travel trade products
- Industry partner satisfaction

Uncontrolled environmental factors that could negatively impact program implementation and forecasted successes include global economies and exchange rates, political conditions, natural disasters, etc. While the business travel market will be monitored, it will not be included in annual benchmarks for success. Priority in tracking and measurement will be directed at the leisure market.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the market

Despite the downturn from some areas, international visitor spending in the U.S. is projected to set a record $108 billion in 2006, up $5 billion from 2005.

Global tourist arrivals worldwide climbed to a new record of just under 800 million in 2006, up 4.1 percent, while easing from the unusually high rates of the prior two years, 9.1 percent and 5.5 percent in 2004 and 2005. World tourism arrivals are expected to continue in 2007 at a pace of approximately 4.3 percent, expanding by an average of 4.2 percent per year through 2011 (Global Insight, April 2007).

International visitation to the U.S. was up 4 percent in 2006, compared to 7 percent in 2005. Growth has slowed despite exchange rates that favor international visitors to the U.S. Increases reported for Canada, Mexico, Australia and South America were largely responsible for the positive 2006 results, helping to offset declining arrivals from Western Europe, down 2.1 percent, and Asia, down 1 percent. Despite the downturn from some areas, international visitor spending in the U.S. is projected to set a record $108 billion in 2006, up $5 billion from 2005 (Office of Travel and Tourism Industries, April 2007).

Overseas visitation to the U.S. fell 1 percent overall, and 3.6 percent for Western Europe during the first nine months in 2006, offset by increases from Mexico and Canada, according to data from the Department of Commerce (OTTI, December 2006).

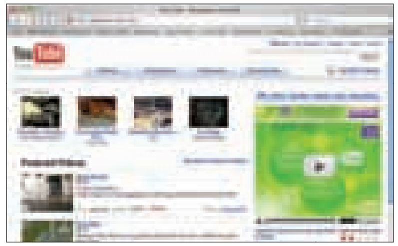
Figures released by the Office of Travel and Tourism Industries (OTTI) forecast only moderate growth in U.S. travel over the next four years for the U.K., France, Germany and Japan. Aside from Canada and Mexico, these countries historically provide the strongest stream of travelers to the U.S. (OTTI, TIA Marketing Outlook Forum, October 2006).

Since 2000, North American market share of European outbound travelers has declined by 4.2 percent, while Asia, Africa and Latin America have gained market share. Asia is the market expected to show the greatest gains in outbound travel through 2010, led by China and India. South Korea and Malaysia are also expected to be important. Dubai is gaining momentum in the marketplace, particularly among affluent travelers.

Research indicates that Europeans are traveling more frequently to European destinations, and Asia and Latin America are growing in popularity. Destinations that have recently become accessible to travelers are gaining momentum. Accessibility may be the result of relaxed passport or visa restrictions (Chinese travelers are now able to travel to Europe), development of new products (Dubai, Antarctica, Mongolia), and/or new-found sense of security (Balkans, Egypt). Like many Americans, the European working class has less leisure time, which is resulting in more frequent, but shorter trips. Long-haul travel to the United States may suffer (The Changing Profile of Tourists-2006/07, ITB/IPK World Travel Trends Report, January 2007). A demographic segment on the rise: the youth market now accounts for over 20 percent of global tourism (World Tourism Organization, 2005).

U.S. Image and Perception

The slowdown in inbound travel to the U.S. in the face of favorable exchange rates can be partly attributed to global destination competition, especially from emerging markets. Security issues and negative perceptions of the U.S. may also be deterring visitors, and are among the reasons that TIA, the Travel Business Roundtable and the Discover America Partnership are calling for travel reforms and the launch of more effective international marketing efforts (TIA Newsline).



Technology

Nearly 30 percent of all hospitality revenues in the U.S. are generated from the Internet. Another 25 percent are directly influenced by consumer online research, but booked offline. By 2010, the Internet is expected to contribute over 45 percent of all travel-related bookings in North America (HotelInteractive.com, October 2006).

Web 2.0 is a phrase coined by O'Reilly Media that refers to a second generation of Internet-based services that allow consumers to define their own online experience through various technologies, from social networking to blogging to wikies, or Web sites that can be modified by any user. Companies and brands that can create a customized, seamless experience using these new technologies will reach an exponentially wider audience in all corners of the globe.

Age Wave

In the decade 2000–2010, the 45–64 age segment is expected to grow from 20 to 25 percent of the U.S. population (Pulse Marketing/Newbridge Partners). This important market segment shows interest in culture, arts, history, pampering and health-related travel (D.K. Shifflet, October 2006). In Europe, older age groups will continue to grow as in the U.S. This population is healthy and currently enjoying early retirement and well-financed pensions (European Travel Commission, Sept. 2006).

Gen X (born between 1965 and 1980) and families are responding to higher cost-of-living prices by spending less on discretionary purchases such as travel. This group is burdened by financial and time debt. Conversely, couples age 35–54 and affluent seniors are an emerging market. The fastest growth for hotel room night sales since 2001 has been among the Gen X crowd, although Baby Boomers represent the largest segment and stay longer (D.K. Shifflet, presentation at TIA, October 2006).

Minority Market

The United States is now the 2nd largest Spanish speaking country in the world. Hispanic online households are projected to grow from approximately 5.5 million in 2003 to 8 million, or 68 percent, in 2007. There are as many as 800–900 travel agencies in the U.S. serving Hispanic travelers in the top five domestic markets: California, Florida, Illinois, New York and Texas (www.papelmedia.com—Papel Media Network, 2005).

Among the Hispanic segment, there are differences in travel patterns between the assimilated and the non-assimilated population. The "Spanish-speaking only" segment of the population is below average in travel volume and travel spending (MRI Syndicated Data, 2006).

Hispanic, African-American and Asian-American traveling households mirror some demographic characteristics of U.S. traveling households, while some characteristics vary by segment. Like U.S. travel in general, the majority of person-trips taken by minority travelers are for leisure purposes and the mode of travel is by personal motor vehicle. Summer is the most popular season and shopping is the top activity, regardless of age or ethnicity (TIA: The Minority Traveler).

Time Poverty

Time poverty is a threat to the travel and tourism industry on a global level. According to TIA, only 47 percent of employed Americans use all of their vacation time, while 24 percent don't use any of their vacation time for travel. This sense of time poverty among employed persons may result in more frequent, shorter, localized trips. Time poverty leads to a desire for all-inclusive, bundled packages to simplify planning and transactions. People may also tend to accrue large amounts of vacation time for sabbatical holidays (European Travel Commission, Sept. 2006).

Airline Capacity

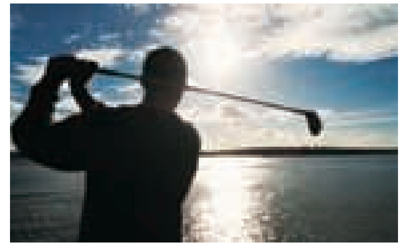
Airline passenger loads in the United States are at roughly 86 percent. Airlines are modifying their routes for efficiency, and have increased passenger loads due to numerous aircraft taken out of service (Plunkett Research Ltd., December 2006). Air passenger prices, one of the main components of real tourism output, remained volatile, declining 8.5 percent in the fourth quarter of 2006, after increasing 0.9 percent in the third quarter and 16.9 percent in the second quarter (U.S. Bureau of Economic Analysis, 3/21/07).

Culinary Travel

Within the past three years, 17 percent of American leisure travelers, or 27.3 million people, have engaged in some type of culinary or wine-related activity while traveling. Culinary travelers take an average of 6.8 domestic and international trips per year, 15 percent more than the average U.S. leisure traveler (TIA, 2/14/07).

These travelers are divided into groups based on how central these activities were in their trip and the planning process:

- food or wine-related activities were the key reason for the "Deliberate" culinary traveler's trip and destination selected;
- the "Opportunistic" culinary traveler sought out food or wine-related activities, but these were not a factor in destination selection; and
- the "Accidental" culinary traveler participated in food or wine-related activities on a trip "simply because they were available."



Luxury Travel

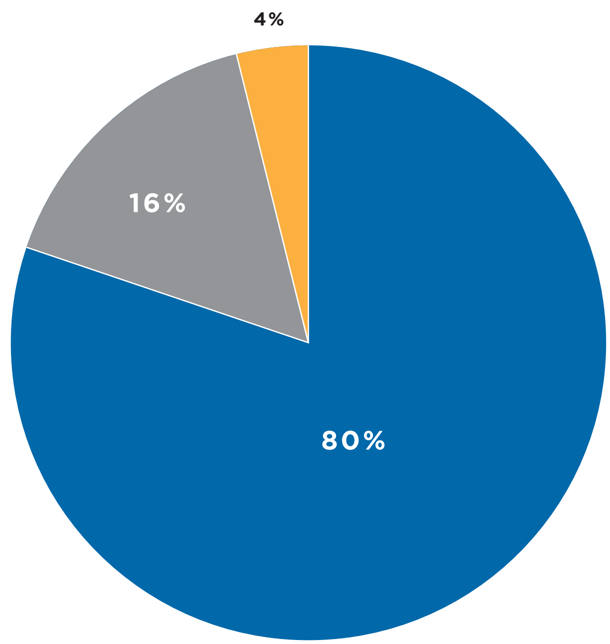
According to Smith Travel Research and PriceWaterhouseCoopers, while hotels have been enjoying increased RevPAR and Average Daily Rates (ADRs) across all market segments, the upscale, upper upscale and luxury segments have seen the most growth: averaging between 8–10 percent growth in each of the last three years. Many hoteliers are using the profits to renovate and enhance their amenities to attract more upscale travelers.

Adventure Travel

One of the fastest growing segments of the global tourism industry is active and adventure travel. In the U.S., $115 billion is spent annually on adventure travel. In 2005, 55 million Americans took an active or adventure vacation, up 14 percent from the previous year (Costas Christ, president, Adventure Council and contributing editor and columnist *National Geographic Adventure* magazine; and Richard Weiss, principal, Richard R. Weiss Associates, at Travel and Retailing Destination Expo, Oct. 19, 2006).

In-state visitors represent the highest volume of travelers in California, while out-of-state residents and international visitors contribute higher per person spending and length of stay.

CALIFORNIA TOURISM 2005
MILLION OF PERSON-STAYS



- **CALIFORNIA RESIDENTS:** 279.8 MILLION
- **OUT-OF-STATE RESIDENTS:** 55 MILLION
- **INTERNATIONAL:** 14.4 MILLION

SOURCE: D.K. SHIFFLET & ASSOCIATES LTD. DIRECTIONS® DESTINATION PERFORMANCE/MONITOR SM, 2006; CIC RESEARCH; CALIFORNIA TOURISM, 2007

CALIFORNIA TOURISM VISITOR/MARKET

CTTC's key audiences are divided into three categories: Travel Trade (wholesale and tour operators), Media (consumer, trade, lifestyle, business), and Consumer (domestic and international). Each audience is targeted domestically and internationally by geographic market. Consumers are further segmented by lifestyle and psychographic factors.

Domestic Market

In-state visitors represent the highest volume of travelers in California. In 2005, California residents represented 80 percent of total Californian travel[1], or 279.8 million person-stays[2], and $42 billion in destination spending[3]. Residents spend an estimated $435 per person/per trip in California[4].

Californians travel overwhelmingly by personal motor vehicle. A small percentage of people travel by bus or train. Visitors from nearby states arrive mostly by car, while long-haul travelers fly. California is a year-round destination. Travel spending by visitors to California has grown at an average rate of 4.1 percent since 1998, or 4.3 percent since 1992[5].

Californians travel overwhelmingly by personal motor vehicle.

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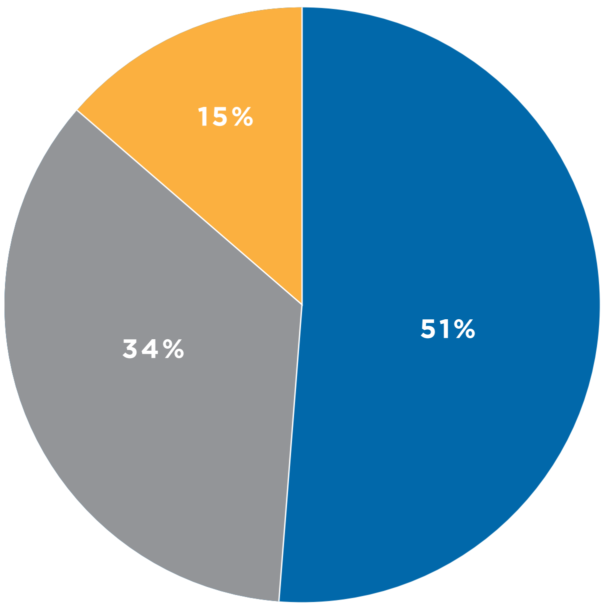
1. CALIFORNIA TOURISM
2. D.K. SHIFFLET & ASSOCIATES
3. CALIFORNIA TOURISM/ DEAN RUNYAN ASSOCIATES
4. STRATEGIC MARKETING & RESEARCH INC.
5. DEAN RUNYAN ASSOCIATES

While contributing 20 percent of visitor volume, out-of-state residents and international visitors contributed nearly half of California's total visitor spending.

CALIFORNIA TOURISM 2005
DESTINATION SPENDING BY VISITOR



- **CALIFORNIA RESIDENTS:** $42 BILLION
- **OUT-OF-STATE RESIDENTS:** $28 BILLION
- **INTERNATIONAL:** $12 BILLION

NOTE: BASED ON $82 BILLION DESTINATION SPENDING IN CALIFORNIA; EXCLUDES $6.1 BILLION OUTBOUND SPENDING

SOURCE: D.K. SHIFFLET & ASSOCIATES LTD. DIRECTIONS® DESTINATION PERFORMANCE/MONITOR SM, 2006; CIC RESEARCH; CALIFORNIA TOURISM, 2007

VISITOR—DOMESTIC PRIMARY MARKET SUMMARY

Six domestic markets determined to be California's "primary" out-of-state leisure markets are: Washington, Oregon, Nevada, Arizona, New Mexico and Utah. Leisure visitors from these states totaled 19.3 million, or 51 percent of non-resident leisure travel to California in 2005. These primary markets are important to maintain, yet anticipated growth is limited due to the high existing penetration.

The targeting of more distant markets must weigh the benefit of higher per-person spending, as much as $658 per person/per trip, with lower trip frequency, often higher media costs, and well-established vacation patterns to competing destinations.

National markets presenting the greatest opportunity over the next five years will include Texas, New York and Illinois, states with large population centers, a high concentration of affluent travelers, and where awareness and interest in travel to California is a strong opportunity.

VISITOR—DOMESTIC PRIMARY MARKET SUMMARY

	INSTATE	PRIMARY (WA, OR, NV, AZ, NM, UT)[1]	NATIONAL (TX, NY, IL)
LEISURE VOLUME	206.2 Million	19.3 Million	5.03 Million
MARKET SHARE (NON-RESIDENT LEISURE)	—	51%	13%
PER PERSON TRIP SPENDING (ALL LEISURE)	$435	$529	$658
LENGTH OF STAY (NTS/ALL LEISURE)	4.0	4.6	4.8
MARKET SHARE CHANGE (2000 VS 2005 PTS)	<4.4>	<2.2>	0.8
COMPETITIVE VOLUME		CA: 5.0 M NV: 1.7 M TX: 697 K AZ: 796 K	FL: 7.9 M CA: 4.7 M TX: 2.2 M NV: 2.4 M

SOURCE: CIC RESEARCH INC., 2007; U.S. DOT, 2006; SMARI, 2007; D.K. SHIFFLET + ASSOCIATES, LTD.

1 FIGURES REPORTED IN PER PERSON TRIP SPENDING, LENGTH OF STAY, MARKET SHARE CHANGE, AND COMPETITIVE VOLUME INCLUDE COLORADO.

The number of overseas travelers entering the U.S. through California Ports of Entry in 2006 was down 1.9 percent from 2005. California is affected by many of the same global trends that affect overall travel to the U.S.

CALIFORNIA PORT OF ENTRY ARRIVALS	
CA ARRIVALS FROM KEY REGIONS	PERCENT CHANGE 2005/06
ASIA	-0.4%
EUROPE	-6.2%
OCEANIA	2.2%
SOUTH AMERICA	-1.0%
ALL OVERSEAS	-1.9%
MEXICO (AIR)	-6.5%

SOURCE: CIC RESEARCH INC., MARCH 2007

INTERNATIONAL MARKET

California hosts 14.4 million international visitors annually, of which 4.8 million travel from overseas. The top seven overseas visitor markets are: United Kingdom (778,000 visitors), Japan (722,000), Australia (313,000), Germany (309,000), France (261,000) South Korea (252,000), and Taiwan (191,000). 2005 was the second year in a row to show a net gain in overseas travel since 9-11, but totals are still below the peak attained in 2000. Mexico and Canada account for more visitors than all overseas combined: 496,000 Mexican air travelers, roughly 8.1 million Mexican visitors traveling to and through California by land, (including 4.8 million day visitors) and 1 million Canadians. In 2005, international travelers spent $12 billion in California, more than 15 percent of all travel spending in the state (CIC Research Inc., Dean Runyan Associates, California Tourism).

The number of overseas travelers entering the U.S. through California Ports of Entry (POE) in 2006 was down 1.9 percent from 2005. Because not all arrivals stay and visit California, and many arrive via other states and are not included in California POE counts, these trends may serve as indicators but do not necessarily reflect actual visitation. However, California is usually affected by many of the same global trends that affect overall travel to the U.S. The Office of Travel and Tourism Industries reported declines to the U.S. overall, through much of 2006, as well as in the same European markets where California arrivals have been weak. In particular: U.K., Germany, France and Italy. Japan has also softened. Arrivals from Australia, Brazil, South Korea and China to California from other U.S. POEs have been strong. Canadian travel to California for 2006 is expected to show gains due to the relative strength of the Canadian dollar.

California's market share of overseas visitors to the U.S. has recorded a general decline since the late 1990s. In 1997, California's market share of overseas visitors to the U.S. was 26.6 percent. By 2004, California's market share had dropped to 20.7 percent. However, in 2005, California's market share increased 6.7 percent to 22.1 percent.

California must also consider aspiration markets when analyzing its domestic and international competitive sets. Aspiration markets are those that attract visitors based on emotional factors, and are often associated with status, prestige and global brand recognition among travelers' peers. An ideal or emotional brand defines the destination, much in the same way the "California Attitude" defines the care-free lifestyle of Californians. Aspiration markets with attributes similar to California include:

- Australia/New Zealand—outdoor adventure
- Paris—romance, 5-star cuisine, wine
- Dubai—beautiful beaches, luxury resorts


california


VIA
RODEO DR

competitive landscape

california

Where a consumer resides directly affects California's competitive situation and ranking as it relates to Share of Trips. This chart illustrates that in the primary markets (Washington, Oregon, Nevada, Arizona, New Mexico, and Utah) California enjoys top ranking in share of trips by targeted travelers. In national markets like New York, Texas and Illinois, California ranks fourth—representing opportunity for growth.

SHARE OF TRIPS—COMPARISON BY STATE				
	RESIDES IN PRIMARY MARKETS[1]	PRIMARY MARKETS	RESIDE IN OPPORTUNITY MARKET[2]	OPPORTUNITY MARKET
DESTINATION	SHARE OF TRIPS	RANKING	SHARE OF TRIPS	RANKING
CALIFORNIA	31%	1	12%	4
COLORADO	20%	2	5%	6
NEVADA	17%	3	9%	5
UTAH	11%	4	2%	7
TEXAS	6%	5	23%	2
FLORIDA	6%	5	20%	3
NEW YORK	5%	6	26%	1
HAWAII	5%	6	2%	7

SOURCE: SMARI, 2006 AD EFFECTIVENESS STUDY

1 Primary Markets: Nearby high volume markets in Seattle, Portland, Salt Lake City, Denver, Phoenix

2 Opportunity Markets: Longer haul markets with largepopulation centers; New York City, Chicago, Houston, Dallas, San Antonio

DOMESTIC MARKET COMPETITION

OVERVIEW

Based on market share and media spending, Florida, Texas, New York and Nevada compete directly with California for domestic visitors. Hawaii is in the competitive set, but does not have the volume of the other competitive markets. Orlando, Las Vegas and New York City are also considered important competitors based on their market positions as destinations in themselves.

California's competitive situation differs based on four criteria: Share of Trips (Market Designation), Media Spending, Market Share and Brand Development/Strengths.

Share of Trips

The chart to the left illustrates that where a consumer resides directly affects California's competitive situation and ranking as it relates to Share of Trips. California enjoys top ranking in the primary markets, yet is ranked 4th in opportunity markets.

Compared to the most recent annual budget figures (2006 total media spending), California's 2007 media spend (roughly $13.5 million) ranks California in the top five spenders domestically.

TOP 10 STATES IN ANNUAL SPENDING
$ SHOWN IN MILLIONS

2006		2005		2004		2003	
FLORIDA	$19.9	TEXAS	19.9	TEXAS	18.5	TEXAS	13.7
TEXAS	18.6	ARKANSAS	13.9	FLORIDA	9.6	S. DAKOTA	10.3
ARKANSAS	14.2	FLORIDA	12.0	NEW MEXICO	8.3	COLORADO	10.3
WISCONSIN	11.0	NEW MEXICO	11.1	WISCONSIN	8.1	WISCONSIN	8.9
COLORADO	8.8	S. DAKOTA	10.1	ARIZONA	8.0	FLORIDA	8.5
LOUISIANA	8.4	WISCONSIN	9.2	S. DAKOTA	7.1	W. VIRGINIA	8.9
VIRGINIA	8.1	MONTANA	8.7	N. CAROLINA	6.3	ARKANSAS	6.9
UTAH	7.7	ARIZONA	8.1	S. CAROLINA	6.0	MARYLAND	6.8
ARIZONA	7.1	LOUISIANA	7.1	W. VIRGINIA	5.8	N. CAROLINA	6.4
TENNESSEE	7.1	VIRGINIA	7.2	ARKANSAS	5.7	LOUISIANA	5.7
TOTAL TOP 10 $	$110.2 +3% VS 2005		$107.2		$75.4		$86.4

SOURCE: COMPETITIVE MEDIA REPORTING/CMR

Media Spending

According to Competitive Media Reporting (CMR), Texas and Florida are historically the top spenders, allotting $10–20 million each year to domestic media. This is significant because Texas and Florida are California's closest competitors in terms of overall market share. Although not measured by CMR, it is expected that Hawaii also spends in the $10–20 million range. Until 2007, California had not been among the top 10 state spenders since 2001.

States such as Arkansas and Wisconsin are consistently in the top 10. It is interesting to note that although New York is one of California's top four competitors, it does not make the list of top spenders.

The cumulative media spending in 2006 among the top 10 states illustrates an all-time high of over $110 million.

Texas and Florida are California's top competitors in terms of overall market share.

CALIFORNIA'S COMPETING DESTINATIONS
TOP STATE DESTINATIONS OF DOMESTIC AIR PASSENGERS, 2005 (000s)

FROM PRIMARY MARKETS

SEATTLE		PORTLAND		SLC		DENVER		PHOENIX		LAS VEGAS	
California	**1,405**	**California**	**891**	**California**	**606**	**California**	**836**	**California**	**1,284**	**California**	**777**
Nevada	473	Nevada	286	Nevada	175	Florida	425	Nevada	440	Arizona	204
Hawaii	282	Hawaii	158	Arizona	171	Texas	366	Texas	331	Texas	158
Arizona	265	Arizona	156	Florida	136	Nevada	324	Illinois	271	Florida	153

FROM NATIONAL MARKETS

HOUSTON		DALLAS		SAN ANTONIO		NYC		CHICAGO	
Texas	770	Texas	1,187	Texas	279	Florida	4,998	Florida	1,833
California	**544**	**California**	**775**	**California**	**148**	**California**	**2,003**	**California**	**1,229**
Florida	414	Florida	578	Nevada	125	Nevada	810	Nevada	755
Nevada	292	Nevada	372	Florida	111	Illinois	765	New York	678

SOURCE: U.S. DEPARTMENT OF TRANSPORTATION, O&D SURVEY; CIC RESEARCH INC., 2007

Market Share

Florida and Texas, ranking second and third after California among top destination states for U.S. resident travel, are California's top competitors in terms of U.S. market share. Despite significant spending levels of both these states in recent years, Florida posted only a 1 percent gain in visitors in 2006, pointing to loss of market share to Texas, California and the Carolinas, and for Texas, market share as measured in stays, person-stays, and person-days has been relatively flat over the past three years (Visit Florida release, 10/28/2005; Hotel Online, McClatchy-Tribune Business News, 3/9/2007; Texas 2005 Visitor Profile, D.K. Shifflet & Assoc.).

New York and Pennsylvania receive the next highest visitation volume and market shares, but tend not to compete for many of California's important markets, while Nevada and Arizona, lower in nationwide share rankings, compete directly with California in primary and national markets. Share and competitiveness of other states drops beyond this point, becoming highly fragmented. Popular vacation destination Hawaii, for example, with 5.25 million domestic visitors, generates less than a full share point of the total U.S. market (California Tourism; Hawaii Visitor and Convention Bureau Market Trends Analysis, 2/2006).

The table below shows the comparative ratings for each state and uses indices to show the comparative strength of each state as compared to the average of all the states rated. An index rating of "100" indicates an average score, while a rating higher than 100 indicates an above average score. A rating below 100 indicates below average performance. The highest rating in each category is shown in bold. California and Hawaii are the leaders in brand development.

MARKET IMPACT OF TOURISM

	TX	FL	NV	CA	AZ	NY	HI	CO
Is A Place With Lots To See & Do	85	98	90	108	90	107	106	97
Is Culturally Diverse	85	98	87	111	91	114	100	84
Is Scenic & Beautiful	81	97	85	108	100	90	117	111
Is Fun	84	101	101	106	91	100	111	96
Has Attractive Parks	86	101	82	109	96	93	110	108
Variety Of Active Outdoor -hiking/climbing/biking	89	89	90	108	104	83	113	115
Has Diverse Urban Dining & Shoppping	89	96	94	110	88	112	95	89
Has Large Exciting Cities With Nightlife	89	98	109	108	81	116	92	85
Has Excellent Beaches	83	133	55	125	56	76	145	57
Is Free Spirited & Individualistic	85	91	102	109	91	99	108	98
Has Interesting Historical Sites	104	92	83	102	99	111	104	98
Lots Of Lakes & Boating Activities	93	114	91	105	86	91	102	102
Is Wacky & Youthful	82	94	105	112	86	96	106	95
Is Casual And Laid Back	95	103	94	105	102	70	119	104
Has Lots Of Quaint Small Towns	101	93	88	104	102	96	100	111
Is Unique	91	95	104	101	95	106	114	96
Has A Unique & Desirable Lifestyle	89	99	90	103	99	95	118	106
Has Friendly People	103	102	98	98	105	81	115	107
Provides A Good Value For The Money	110	108	113	92	112	83	89	110
Overall Average	91	100	93	107	93	96	109	98

SOURCE: DEAN RUNYAN ASSOCIATES, 2007

Brand Development/Strengths

Advertising effectiveness research provides insight into the brand strength of the competitive set. To assess the competitive environment, California was compared to seven destinations that represent the competitive set and primary destinations that consumers are likely to consider. Each state was rated on 19 attributes.

This competitive comparison indicates that California's competitive image is above average in all but two categories, and generally better than the competition. Its overall rating of 107 is second only to Hawaii, at 109. Hawaii earned the highest ratings in many categories, including being scenic, fun, and unique. Hawaii's only weakness is noted relative to value for the money.

A review of the ratings highlights the following considerations:

- Colorado earned strong ratings for outdoor activities and having lots of quaint small towns.
- Florida is viewed as having excellent beaches and lots of boating and lakes.
- Nevada earned strong ratings only for being a good value for the money.
- New York's image is considered culturally diverse, with lots of shopping, dining, nightlife, and interesting historical sites.
- Texas and Arizona did not excel in any areas over the other states.


california

california brand

Among the key target market, non-resident leisure travelers, the growth in travel volume for California was significant. California's rate of growth among this key target was up 33 percent—nearly double the growth rate of leisure travel overall in the U.S. during the same period.

YEAR OVER YEAR TRAVEL VOLUME COMPARISON
LEISURE TRAVEL
PERSON STAYS—IN MILLIONS

	TOTAL US	CA NON-RESIDENT
2005	2247.9	38.1
2004	2177.4	33.0
2003	2081.9	31.4
2002	1970.1	28.6
% CHANGE 2002-2005	+14.1%	+33.2%

SOURCE: D.K. SHIFFLET & ASSOCIATES, LTD.; CALIFORNIA TOURISM

California has achieved great success with its brand advertising program, growing market share and demonstrating a significant return on investment. California 2.0, the next generation of California's marketing and branding efforts, will seek to further refine California's brand promise and expand its appeal, reach and influence.

HISTORICAL OVERVIEW— A LOOK BACK AT DEVELOPMENT OF THE CALIFORNIA BRAND

A new brand platform (leveraging California's unique lifestyle) and significant changes in the media approach facilitate sustained growth for California, outperforming the category and the competition along the way.

In 1997, California was experiencing one of the sharpest economic recoveries on record. Research also reflected many positive trends for the State's tourism industry. California had been enormously successful in growing tourist spending and associated tax revenue over the recent years and tourism was a strong contributor to the State's economy. However, analysis revealed that while California's leisure travel volume was growing at a faster pace than the rest of the U.S. travel market, the State was losing market share to other states.

From a brand standpoint, California was no longer perceived as a trendy or premier destination. Consumers were rating California below key competitors such as Arizona, Virginia, Colorado, Florida and Hawaii in satisfaction and value.

The State had been promoting tourism on a rational platform, selling functional attributes associated with California's diversity. Promising "lots to see and do," the campaign had educated consumers on the many types of vacations available in California through vacation typologies. Campaign effectiveness was based on calls to the call center and requests for travel planners. This functional communication strategy provided good information for those willing to wait for the Visitor's Guide, but did little to differentiate California and truly brand the California experience.

The first step in redefining California was to better understand the non-resident leisure traveler. Qualitative research studies were conducted with potential California travelers and industry experts to learn what the motivating factors were in taking a vacation, and why people chose to travel to California. Research revealed that leisure travel is first and foremost an emotional investment. People are buying memories and transformation.

Research also reinforced that diversity remained California's key attribute, yet it did not fully brand California or inspire an emotional investment. California's brand equity became emotionally charged when consumers described and discussed the people of California and their unique lifestyle or approach to living. Consumers perceived California to be truly different from any other place in the world because of the perceived laid-back lifestyle that puts pleasure first and celebrates living life to the fullest.

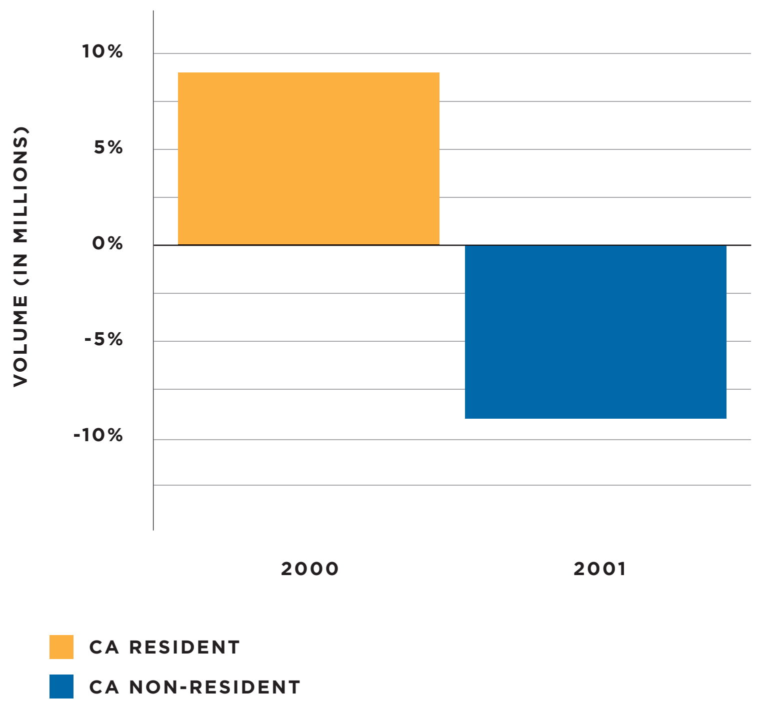
One of the most interesting findings was that this "California Attitude" (coined on behalf of CTTC, by Mering & Associates) aligned with the exact feelings that travelers wanted on a vacation. Words used to describe the ultimate vacation and California are nearly the same in each case. In leveraging this notion of the "California Attitude," California could own the ultimate vacation experience.

The entire advertising program was overhauled based on these findings, with new approaches applied to brand and creative development, and media planning. Because the charge of the Division of Tourism/CTTC was to supplement the industry's efforts, the program Mering & Associates implemented was focused on out-of-state travelers and bringing new leisure tourists to California. The plan featured national print advertising and emphasized key volume feeder markets using television. The creative captured California's unique attitude and brand character with a tonality that was lighthearted and carefree. The communication was punctuated by California's scenic beauty and diversity.

The strategies and execution paid off immediately, beginning a sustained growth trend for California tourism. Among the key target market, non-resident leisure travelers, the growth in travel volume for California was significant. As shown in the chart at left, California's rate of growth among this key target was up 33 percent—nearly double the growth rate of leisure travel overall in the U.S. during the same time period.

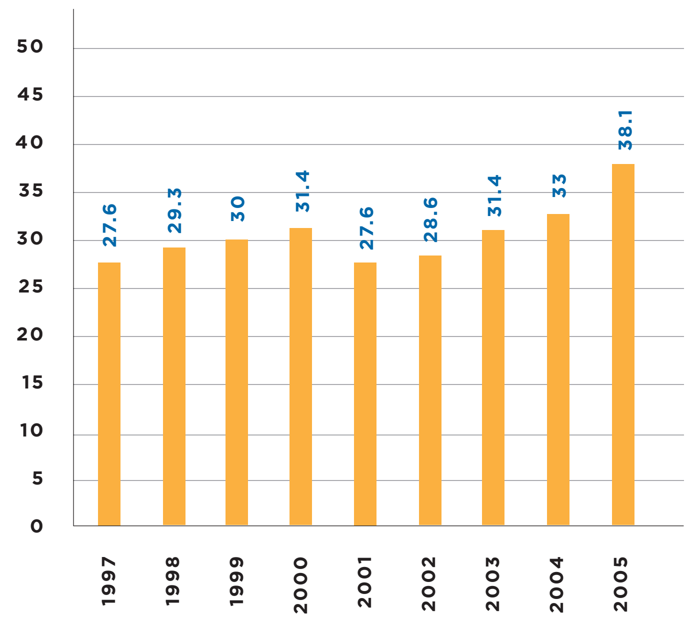
California shifted its focus to the in-state market as a post 9/11 strategy and succeeded in growing travel volume overall, despite the challenging environment.

LEISURE TRAVEL VOLUME
IN MILLIONS



SOURCE: D.K. SHIFFLET & ASSOCIATES, LTD 2002, 2003; CALIFORNIA TOURISM

CALIFORNIA NON-RESIDENT LEISURE TRAVEL
1997–2005



SOURCE: D.K. SHIFFLET & ASSOCIATES, LTD 2002, 2003; CALIFORNIA TOURISM

Annual quantitative tracking studies also supported the positive results—as consumer attitudes and perceptions indicated favorable movement in key measures associated with the California brand and the "California Attitude" —the unique brand character that so clearly differentiates the California experience from other states. This brand character had become the key point of difference and a powerful tool when delivered through the creative product.

What makes this trend so remarkable is that the annual media budget prior to the 9/11 response had never exceeded $3.3 million. The spending level was below the top 10 in state tourism spending. Texas and Florida, California's closest competitors in terms of traveler market share and the top media spenders, typically spent $10–20 million annually. Delivering the right message at the right time to the right people overcame the significant hurdle of severely limited funding resources.

An immediate downturn in travel was felt after the events of 9/11. California's travel industry quickly realized that not only were non-residents not traveling, but resident travelers who made up approximately 85 percent of California's travel volume were also staying home.

The decision was made to reallocate the spring 2002 funds to an emergency response in-state campaign to encourage immediate in-state travel. The carefree, lighthearted tonality of the "California Attitude" campaign was inappropriate given the mood of the country in light of September's tragic events. New creative was developed.

The 9/11 response campaign was rolled out in two phases. The first phase was designed to reassure and remind Californians of the incredible destination of their home state. The highly effective campaign was comprised of TV, radio, outdoor and cooperative print. As shown in the chart opposite page, the gain in resident volume—20.9 million trips, well exceeds the drop in non-resident of 3.7 million trips. The result was overall growth in volume and share, with share hitting a high of 11.5 percent. The chart on the opposite page illustrates the results in travel volume.

The second phase of the response campaign, which began in January 2002, was decidedly more upbeat. The campaign was anchored by a new TV spot titled "We're Californians." The spot was an anthem to inspire the State's residents to be true to the California spirit. This new spot celebrated the idea of being Californian, and for the first time featured two larger-than life Californians: Jack Nicholson and Clint Eastwood. This breakthrough commercial created a significant buzz throughout the State, not only among residents, but with influencers and the Governor's office.

By 2003, the advertising program was back on track with a concentrated effort in the West to regain out-of-state travelers. The "We're Californians" TV spot was revamped to be relevant and motivational for out-of-state travelers, and re-titled "Welcome to California."

The spring campaign was deemed very successful by Strategic Marketing & Research, Inc. (SMARI). Among the findings of the 2003 Ad Effectiveness Study:

- Campaign reach was high at 68 percent overall among surveyed households in the target markets, and 71 percent of the households in key A Markets; and
- California ads received the highest qualitative ratings of any ads that SMARI has tested, and were viewed as significantly better than key competitors.
    - Ratings of "Welcome to California" averaged a 4.1 in important key measures, where competitive destinations averaged 2.3 to 3.4.

The chart on page 46 illustrates California's significant gains in the key Non-Resident Leisure Travel market segment following the program.

The commercial's flexible format has extended the life of the spot. Updating the commercial with new celebrities and scenes keeps the commercials fresh. In addition to Jack Nicholson and Clint Eastwood, the list of celebrities involved in the campaign has grown to include Governor Schwarzenegger, First Lady Maria Shriver, Wolfgang Puck, Teri Hatcher and NASCAR superstar Jeff Gordon.

Qualitative research studies were conducted with potential California travelers and industry experts to learn what the motivating factors were in taking a vacation, and why people chose to travel to California. Key Learning: The unique California lifestyle truly differentiates the California experience from the competition, and motivates desire to visit California.

TRAVELERS WANTS AND PERCEPTIONS OF THE CALIFORNIA VACATION EXPERIENCE	
WHAT TRAVELERS WANT IN A VACATION EXPERIENCE	**TRAVELERS PERCEPTIONS OF THE CALIFORNIA VACATION EXPERIENCE**
Promise of new discoveries Pleasure Relaxation Fulfillment Happiness Chance to reconnect in relationships	A dramatic place, remarkable scenery "...the joy of driving between the ocean and the mountains, stopping at dramatic points along the way to take roll after roll of photographs..." With a unique lifestyle "...it's an attractive mentality for when you're vacationing...you want to come down..." Relaxed and laid-back A place to explore on many levels Pleasure-oriented Expectations are met, lasting memories are created Different from any other place

BRAND EVOLUTION—LOOKING FORWARD TO THE FUTURE OF THE CALIFORNIA BRAND

Although the communications effort has been continuously tracked from a quantitative standpoint, a direct dialogue with consumers was necessary to ensure that California's brand platform remained relevant and motivating.

In early 2007, two phases of qualitative research were conducted with leisure travelers. Phase I consisted of live interviews with 245 English- and Spanish-speaking in-state, domestic and international travelers. The objective was to observe travelers while they were experiencing California to see if they were, quite literally, living out the "California Attitude." Results from these interviews were used to help inform Phase II research.

Interviews yielded four consistent areas of interest for respondents that reinforced the strategic direction.

These themes were explored in Phase II of the research to determine if any of them resonated with consumers, and which were unique and "ownable" claims for the State.

Phase II consisted of focus groups in key Primary Domestic (Seattle) and National Opportunity (Chicago, New York, Dallas, Atlanta) markets. Consumers were segmented by a variety of criteria:

- Traveler Type: Past Visitors and Prospects
- Seasonality: Winter/Fall and Summer/Spring
- Age: 30–39 and 40–60
- Other: $75k+ HHI, with/without kids, mixed gender

Several techniques were used to uncover the deeper, more emotional connections consumers have with California. Many of the same exercises were conducted in the 1997 focus groups and provided contrast to the 2007 findings. The exercises consisted of the following:

1. Pre-group homework "postcard" exercise where consumers were asked describe their vacation experience to someone back home;
2. Pre-group "personification" exercise where consumers were asked to describe California as if it were a person;
3. In-group "collage" exercise where consumers used images and words from popular magazines to depict the ideal vacation experience;
4. In-group "collage" exercise where consumers used images and words from popular magazines to depict the California vacation experience;
5. In-group "drawing" exercise to sum up what made California unique from other destinations; and
6. In-group exercise to describe California to a space alien to depict the State to someone who had never been to Earth.

Regional differences that arose in the groups related primarily to geography (distance from California) and social issues (Chicago, New York and Seattle are more upscale in nature than Atlanta and Dallas). Despite these differences, there was significant common ground across all groups.

Consumers' reasons for not visiting California are rationally, not emotionally driven.

When asked why they had not been to California or returned, the most commonly cited reasons, particularly for the farther away markets, was the expense, the distance (especially if there were kids involved) and the time commitment. For longer haul markets, California is not seen as a getaway destination. Additionally, the vast size of California was seen as too daunting when trying to decide where to go and what to do, especially if consumers were unfamiliar with the state.

The research largely reinforced past learning on what consumers perceive to be the ideal vacation experience.

While highly positive in most respects, California's size and breadth of offerings are considered overwhelming and present challenges when contemplating a California vacation.

The collage exercises reinforced that consumers desire the following elements:

Change of Scenery Experiencing a distinctly different environment

Romance/Reconnect Renewing relationships, romance and intimacy

Pampering/Indulging Treating one's self, being catered to, being excessive without the guilt

Discovery Experiencing new things, new sights, discovering how the locals live

Escape/Freedom Release from day-to-day routine, "can be anyone I want to be"

Fun Laughter and spontaneity

Beyond the Norm Partaking in new and different activities, "things I can't do at home"

Rejuvenate/Recharge Taking pleasure in the moment, quiet time

Regarding seasonality, the most ideal spring/summer vacations revolve around the beach and the most ideal fall/winter vacations include snow, comfort (fires, comfort food, etc.), or escaping the cold, depending upon place of residence.

When combined, the projective techniques confirmed much of the learning from the 1997 qualitative research. The 2007 learning provides nuances to the positioning and strategic direction to give California a more unique and powerful brand platform in terms of California's key differentiating rational and emotional attributes.

Due to California's diverse and abundant offerings, consumers still see California as synonymous with and able to deliver on the ideal vacation experience. Most importantly, California continues to over-deliver on emotional drivers that lead to consumers' connection with California and the State's mystique.

From a rational standpoint, the exercises revealed that California is recognized for a wide range of exceptional attributes: scenic and natural beauty, idyllic weather/climate, entertainment, cuisine, people, geography, topography amenable to outdoor pursuits, sheer size, range of attractions and things to do, icons, fabulous wealth/affluence, and a distinctive food and wine culture.

New learning reveals that Hollywood, food and wine, and select icons are viewed as an integral part of the California lifestyle.

There were several key differences in the 2007 learning when compared to past qualitative learning:

- Fewer landmarks were considered icons. Motivating icons were limited to the Golden Gate Bridge, the Hollywood sign and the California coastline;
- The culinary travel theme was much more pronounced than in the past. While the global culinary travel theme continues to drive consumer interest in food and wine, in California it is seen as a lifestyle and not merely an activity that you do on vacation. California is given credit for having the best culinary experience because of several core differentiators from other states—organic, fresh, sustainable, home-grown (literally on premise), innovative, climate-driven, pioneering and diverse;
- Though California is viewed as liberal and progressive, the perception of the State as a "wacky, land of fruits and nuts" was far less pronounced than in the past;
- There is much greater emphasis on California's wealth and affluence;
- Fascination with Hollywood, the entertainment business and celebrities has never been greater; and
- While highly positive in most respects, California's size and breadth of offerings are considered overwhelming and present challenges when contemplating a California vacation.

The exercises were largely designed to get consumers to depict California in more emotional terms that truly differentiate the State. We confirmed that the strategic direction has never been more solid. California's brand character and true differentiator, the "California Attitude," is more relevant and motivating than ever before.

While California's volume and share is on the rise, so is competitive spending and pressure. Given this, it is critical to maintain a focus on our unique point of difference:

the California lifestyle and attitude

BRAND THEMES

Collectively, the projective techniques revealed several differentiating themes:

Unique Lifestyle

California's residents, and the corresponding lifestyle and culture, are distinctly different from any other place. California is described as a casual, laid-back place with a unique vibe where freedom of expression and anything and everything goes. California is an active place with an outdoor focus that is driven by the unique climate.

Abundance/Land of Contrasts

California is a place that has more of anything you can name than any other state. It is described as a multi-layered experience comprising a blend of different attitudes, climates, and cultures where one can experience "extremes" not found anywhere, from LA/Hollywood glitz and glamour, to San Francisco's sophistication to Napa/Sonoma's rustic elegance.

The Golden State

The idea that California is the "Best of America"—the best of life and a place where dreams come true. It possesses the best scenery, best food and wine, best indulgences (hotels, spas, etc.), best climate/sunshine, best and longest coastline.

This new learning provides the State with a refined and more powerful position.

Unlike the past, consumers now described the state's key assets as not just diverse, but as abundant and superlative in nature. They believe that California has the most (diversity) and the best of what life has to offer. This allows California to position itself on 'abundance' that is superlative in nature; a place that only California can own.

Current research also reinforces the notion that the California lifestyle or "California Attitude" is not only unique, but highly desirable and motivating for leisure travelers. Consumers want to experience the State's lifestyle, either from an observatory or participatory standpoint. They can see things they wouldn't see in their regular environment and try things that are out of the norm. They want to become a Californian, if even for a short time. The California lifestyle was also described as an envious one, something that consumers had voyeuristic desires about, and a place they had to see or experience for themselves to really believe it.

The current television spot, "Lucky Day," was also tested across all markets. The spot received highly positive reactions and was considered compelling and motivating. It was seen to sum up the State's key assets and depict its unique lifestyle.

CALIFORNIA 2.0—POSITIONING THE STATE FOR FUTURE SUCCESS

California owns "abundance," not only the most of what life has to offer (diversity), but also the *best* of what life has to offer.

While other states try to position themselves on diversity, research proves that California not only owns diversity, but something more powerful and unique than simply "a lot to see and do." Consumers describe California's abundant offerings as being superlative in every way. From people, lifestyle, cuisine (food/wine), entertainment and culture, to geography, topography and scenic beauty, California has it all and it is better than anyplace else. Consumers depict California as a state that "has everything imaginable in one place" and a place that has "the best of all that is good in life."

Leisure travelers say that California is a place that it is impossible to experience in one trip. The blend of different attitudes, climates, cultures, entertainment and activities means that regardless of the number of visits made to the state, there is always something new and different to experience that often is beyond the norm.

This is a strong, positive position and a core differentiator. By leveraging this position and focusing our brand advertising efforts and messages in ways that present the State like no other destination, we will continue to motivate leisure travel to California.

STRATEGIC TARGET—CALIFORNIA'S PSYCHOGRAPHIC SWEET SPOT

Leisure travelers who represent the greatest opportunity for California are those who possess a similar state-of-mind, particularly as it relates to desires regarding their travel experiences. While research continues to show that these consumers share many commonalities, there are some key areas that are more important emotional drivers to them now than in years past.

Continued characteristics of leisure travelers to California, 1997:

Experiential—They want new experiences, discoveries and things beyond the norm;

Indulgers—They want the ultimate culinary, luxury, pampering, etc. experiences; and

Confident—They are leaders and trendsetters .

More prominent characteristics of leisure travelers to California in 2007 than 1997:

Aspirational—They want to experience the good life, have the resources to do so, and will stretch themselves to get a piece of it; and

Curious—They need to see it to believe it…they want to see California and experience it for themselves and until they do so they don't really feel like it's real.

The ethnic diversity of California yields innumerable exotic dining choices. There are countless fine dining restaurants, and Napa and Sonoma are synonymous with world-class wines.

THE FOOD & WINE LIFESTYLE—AN INCREASINGLY IMPORTANT INGREDIENT OF THE CALIFORNIA BRAND

As the qualitative research revealed, California's food and wine culture is considered by leisure travelers to be one of the state's defining assets. This is a departure from the qualitative research of 1997. Today, California is seen as a pioneer in fresh, healthy food and the organic and sustainable agriculture movement. The ethnic diversity of California yields innumerable exotic dining choices. There are countless fine dining restaurants, and Napa and Sonoma are synonymous with world-class wines.

> **"I am taking a 'food vacation' to Los Angeles. Why LA? LA is one of the best 'food cities' in the USA and also the world. In particular, LA has the best sushi in the entire world, outside of Japan."**
> **—Seattle past visitor**

As it relates to California's food and wine lifestyle, the promise of abundance is equally compelling.

- California has more wineries that any other state—nearly 3,000 (2,923 at last count), with 183 new wineries coming online between 2005 and 2006—*Wine Business Monthly*, Feb. 15, 2007.
- There are more than 80,000 eating and drinking establishments in California (80,933 as of 2005 year-end)—*California Restaurant Association, 2005 Fast Facts.*
- Of the top 10 agricultural producing counties nationwide, nine are located in California: Fresno, Tulare, Monterey, Kern, Merced, Stanislaus, San Joaquin, San Diego, Ventura and Kings; California has 77,000 farms and ranches—*California Department of Food & Agriculture.*

Few destinations in the world have given rise to a style of cuisine named solely after their region. More than a niche market, California's rich array of food and wine offerings is a lifestyle, and an inherent part of the California brand. It encompasses the entire state, from rural to urban, envelopes cultures and inspires creativity, and holds within it an opportunity to lure affluent leisure travelers who tend to be more active and engaged travelers.

California has achieved much success with its national umbrella brand campaign that leverages the traveler's voyeuristic desires and fascination with all things Californian. Because food and wine are viewed by travelers as an inherent part of California's lifestyle there is a distinct opportunity to drill down from the umbrella brand and develop an initiative that positions California as the leader in today's trendy culinary arena.

California holds the top position as the destination most recently traveled to for both food-related (14 percent) and wine-related (31 percent) activities. California is followed by Florida (10 percent), New York (7 percent) and Texas (6 percent) for food-related trips, and by New York (10 percent), Missouri, North Carolina, Oregon and Pennsylvania (all 5 percent) for wine-related trips. For both food- and wine-related trips, travelers stay longer (3+ days) and the majority stays in hotels/motels/resorts (TIA/Edge Research, Profile of Culinary Travelers, 2006).

Unlike many other activities that occur on a vacation, food and wine has been elevated by consumers as a driver of destination choice. Through a statewide culinary tourism initiative, California can capitalize on this trend by appealing to the affluent leisure travel segment with new and relevant content that leads to increased travel throughout California year-round.

Culinary California will expose would-be travelers to the State's abundance of food and wine offerings giving them a chance to live like a Californian, if only for a short time. California offers everything from restaurants showcasing fresh, local, seasonal, organic and sustainable bounty to wineries, tasting rooms and tours, to festivals, harvests and educational opportunities to culinary-oriented resorts and retreats.

california

marketing strategies

The 5-Year Strategic Marketing Plan is driven by five core strategies:

PROTECT AND MAINTAIN VOLUME IN DOMESTIC PRIMARY MARKETS **1**	REACH NEW VISITORS IN NATIONAL OPPORTUNITY MARKETS **2**	EXPAND MARKETING AND SEASONAL COVERAGE TO DRIVE YEAR-ROUND VISITATION **3**	DEEPEN EFFORTS IN PRIMARY INTERNATIONAL MARKETS **4**	DEVELOP TECHNOLOGY PLATFORM TO EXTEND REACH AND IMPACT **5**

Due to increased funding levels and increased global competition, advertising and technology are expected to have the most influence in driving CTTC programs over the next five years. Advertising and technology represent approximately 70 percent of the proposed $50 million budget. Advertising remains the largest program expenditure with technology and international programs being new areas of investment as compared to past years' budgets.

The bulk of the incremental funding will be devoted to deepening consumer efforts Internationally and developing a global technology platform.

CORE STRATEGIES

1	**PROTECT AND MAINTAIN VOLUME IN DOMESTIC PRIMARY MARKETS.**	Fifty-one percent of California's out-of-state leisure visitors in 2005 originated from six domestic primary markets: Nevada, Arizona, Washington, Oregon, New Mexico and Utah. (Domestic Travel to California 2005, DK Shifflet & Assoc., 2006). While domestic visitor spending and market share are historically strong, it is critical that California protects and maintains a healthy presence in these primary markets. Creating new incentives for travel and developing enticing top-of-mind awareness strategies are important to further distinguish the fun-loving, trendy California lifestyle brand, and give people reasons to continue visiting California.
2	**REACH NEW VISITORS IN NATIONAL OPPORTUNITY MARKETS.**	Since CTTC launched its first national cable television campaign in FY 2005/2006, advertising has proven to be a successful tool in generating awareness in opportunity markets such as Texas, New York and Illinois. Advertising will continue to be the leading mechanism in attracting visitors from affluent, high-population regions in select opportunity states.
3	**EXPAND MARKETING AND SEASONAL COVERAGE TO DRIVE YEAR-ROUND VISITATION.**	As Baby Boomers reach retirement and Gen Xers book shorter, more frequent trips, travel is no longer relegated to summer vacations. CTTC's "Winter in California" ski campaign, launched in FY 2005/2006, marked the first time that California Tourism ventured beyond its traditional spring advertising window. The successful campaign demonstrated that travelers are interested in California as a year-round destination. CTTC will continue to expand marketing programs and build seasonal advertising and publicity campaigns to drive year-round visits to California. Niche markets to drive off-season visits such as culinary and arts and cultural travel, areas that are natural fits in California, will be examined for marketing opportunities.
4	**DEEPEN EFFORTS IN PRIMARY INTERNATIONAL MARKETS.**	Global competition is a growing threat to California's primary international markets. Increased marketing efforts are of paramount importance overseas and in Canada and Mexico. CTTC will leverage public relations and travel trade programs and relationships with international representative offices to reach consumers directly through call-to-action campaigns in the primary volume markets: U.K., Germany, Australia, Japan, Mexico, New Zealand and Canada.
5	**DEVELOP TECHNOLOGY PLATFORM TO EXTEND REACH AND IMPACT.**	The California brand is expected to be a leader in the technology arena and have the greatest impact in reaching target audiences in domestic and international markets. Web-based technology will be CTTC's most cost-effective strategy for communicating effectively, often and directly with consumers, travel trade, media, and assessed businesses. CTTC marketing programs will have a market-specific, Web-based component where applicable.


california

domestic marketing summaries

california

BRAND ADVERTISING

COOPERATIVE PROMOTIONS

TECHNOLOGY

PUBLICATIONS AND FULFILLMENT

COMMUNICATIONS

TRAVEL TRADE

RESEARCH

RURAL TOURISM

VISITOR SERVICES/ CALIFORNIA WELCOME CENTERS

INTERNATIONAL MARKETING

Ten specific programs fall under CTTC's marketing umbrella:

- Brand Advertising
- Cooperative Promotions
- Technology
- Publications/Fulfillment
- Communications
- Travel Trade
- Research
- Rural Tourism
- Visitor Services/California Welcome Centers
- International Marketing*

Each program comprises broad-based objectives to meet the long-term strategies of the 5-Year Strategic Marketing Plan. While objectives are outlined individually by program, they are integrative by design. Cohesive brand messaging throughout all programming is fundamental.

The Domestic Marketing Summaries section outlines objectives, key initiatives and metrics for each marketing program. Annual work plans outline tactical support for program initiatives and will be updated on an annual basis.

* PLEASE REFER TO INDIVIDUAL COUNTRY PLANS FOR DETAILED PROGRAMMING.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BRAND ADVERTISING

California has achieved great success with its brand advertising program, growing market share and demonstrating a significant return on investment. California 2.0, the next generation of California's marketing and branding efforts, will seek to further refine California's brand promise and expand its appeal, reach and influence.

Brand Advertising Objectives:

- Facilitate top-of-mind awareness of California as a premiere travel destination—seed the consideration process that leads to visitation;
- Generate acceptance of and preference for California—connect California's unique emotional benefits with would-be travelers;
- Drive traffic to the Web site—encourage consumers to take action; and
- Inspire repeat visitation—give consumers new reasons to become California brand evangelists.

Success Measures:

In order to ensure California's brand advertising program is meeting the designated objectives, CTTC will continue to invest in SMARI Advertising Effectiveness Studies using a two-phased approach to measure attitude and awareness, and conversion/ROI. This annual study gauges top-of-mind awareness of the destination, advertising recall and destination preference, as well as influenced and incremental visitation. In addition to SMARI data, D.K. Shifflet's travel volume reports will be used to measure travel volume and market share. Finally, we will look at Web site statistics to round out the success measures, including overall site traffic, online Visitor's Guide sessions and opt-in database growth.

California is a year-round playground with strong visitation throughout each season.

BRAND ADVERTISING KEY STRATEGIES:

1	**CONTINUE TO BRAND THE CALIFORNIA EXPERIENCE TO COMPETITIVELY DIFFERENTIATE THE STATE AND CREATE DESIRE.**	While California's volume and share is on the rise, so is competitive spending and pressure. Given this, it is critical to maintain a focus on our unique point of difference—the California lifestyle and attitude. California owns abundance, encompassing the most and best of what life has to offer. Californians put pleasure first and live life to the fullest. While being hedonistic, youthful, fun and individualistic, Californians are also laid back, welcoming and open-minded. Through continued promotion of the umbrella brand, we can capitalize on the travelers' voyeuristic desires, offering them an opportunity to be Californian by visiting California.
2	**EVOLVE TO A YEAR-ROUND APPROACH THAT ALIGNS WITH CALIFORNIA'S YEAR-ROUND TRAVEL PATTERNS.**	California is a year-round playground with strong visitation throughout each season. During the winter and spring, California's leisure visitation outpaces total U.S. leisure visitation, making the shoulder seasons a significant area of opportunity. With increased funding, CTTC's brand advertising program will be expanded to support the shoulder seasons through the aforementioned strategies as well as seasonal promotional offerings.
3	**RECONNECT WITH CONSUMERS WHO ARE FAMILIAR WITH THE CALIFORNIA BRAND TO OFFER NEW REASONS TO VISIT.**	Consumers residing in California's primary domestic markets tend to be more familiar with the state and its unique lifestyle and attitude. In order to motivate travel among these "brand familiars" it is critical to drill down into California's abundance of offerings and deliver messaging that gets beneath the surface and provides real insight into "living the California lifestyle." Leveraging people's fascination with California and Californians and providing "insider information" that gives these brand familiars new ideas and ways of experiencing the state are important in protecting and maintaining volume from these critical markets.
4	**LEVERAGE FOOD AND WINE AS A DRIVER FOR DESTINATION CHOICE.**	Food and wine has moved from a vacation activity to a significant part of the aspirational California lifestyle, becoming a driver for destination choice. It is California's unique blend of climate, geography, innovation and a pioneering spirit that make the state's food and wine offerings the best in the world. Through a dedicated effort targeted to culinary travelers, those who travel to learn or enjoy unique and memorable eating and drinking experiences of all types, California can further differentiate itself from the competition and gain a foothold among these highly affluent, active and experiential consumers.
5	**DEVELOP STRATEGIC ALLIANCES WITH LIKE-MINDED BRANDS TO ELEVATE CALIFORNIA'S BRAND CACHET AND EXTEND REACH AND INFLUENCE.**	California is a powerful global brand, beloved and desired by consumers. More than a state or a destination, California is an icon of inspired thinking and innovation. California is a fashion brand, a technology pioneer, a trendsetter, a leader. As such, California has the unique ability to form strategic alliances with other powerful global brands for mutual benefit. In addition to key travel partners like Southwest Airlines, CTTC will look to cultivate new partnerships with non-endemic brands ranging from Apple and Armani to Lexus and Levi Strauss & Co.


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COOPERATIVE PROMOTIONS

Since 1997 and the passage of the California Tourism Marketing Act, the CTTC has successfully managed programs to help California retain a competitive edge in the global marketplace, and create the most progressive marketing program in the nation. This has been accomplished despite inconsistent and relatively little funding. Cooperative marketing has been an essential tool in achieving those accomplishments—aggregating and leveraging funding from CTTC, private and other governmental sources in every major category of California Tourism's program to promote travel to California. California Tourism has provided seed funding of over $6.3 million during the past four years and industry participation has leveraged that investment conservatively into a 4-to-1 or $25 million cooperative marketing effort, due to the over 300 participants.

The strategy has been to create targeted programs that address specific consumer interests while vacationing. In this way, the CTTC had the most success in bringing industry partners together to leverage their spending. California Tourism developed activity-based promotions including California Fun Spots (theme parks and attractions), Culture California, Dine California, Golf California, California (Outdoor) Recreation, California Snow, Wild Vacations in California and an on-going general travel cooperative with American Express. Leveraged promotional activities include print publications, creation of activity-specific Web sites, participation in trade shows, added value card promotions, as well as other tactical elements.

Now that the CTTC has received significant new funding and the ability to develop long-term strategic plans—the objectives and strategies are shifting. This element of the program will exist to serve the following functions:

Extend the reach of the brand platform

Leveraging the California (CA) lifestyle and the notion of living life to the fullest. This brand platform has several areas in which cooperative marketing can be highly relevant and useful in promoting travel to California.

Partner with the CA travel industry

When significant fund raising has occurred. For example, California had been losing share of the destination skier market, and in 2005, a CA Snow coalition was created. The group raised roughly $750,000 (a sum that was matched by the CTTC) in an effort created to leverage the CA brand and increase awareness of California as a winter/snow destination.

Provide industry support

The CTTC toolkit includes several affordable opportunities for California's travel industry to get involved, that will include:

- Web listings and banner ads
- Annual Visitor's Guide
- Trade shows
- Media events
- Press release program
- FAM trips

california

CTTC's consumer-focused Web site will support the brand and provide prospective visitors with in-depth information on California destinations, and full-service trip planning capabilities.

TECHNOLOGY

New qualitative research probing consumers' trip planning preferences and behaviors show the Internet is now utilized as a primary planning tool as compared to the 1997 study. Search engines such as Google and Yahoo are often the starting point, as well as sites like Travelocity, Orbitz, Expedia, Hotels.com and Priceline. Once the destination is selected, many consumers indicate they undertake city-specific searches, but few reported visiting official state Web sites suspecting they had an agenda. In order to dig into a destination, most people preferred to interact with their peers (i.e. Trip Advisor).

In terms of selling or packaging California to consumers, four key hot buttons arose:

- Plan it for me;
- Match a trip to my interests;
- Give me the inside scoop; and
- Give me a deal.

When asked what types of information about California would be most useful and how it should be presented, consumers specified the following:

- Trip itineraries by traveler type (families, groups, couples, etc.);
- Trip itineraries based on favored activities (wine lovers, foodies, events, etc.);
- Regional tours (Wine Country, Central Coast);
- Concierge service to customize vacations to suit individual preferences;
- Event calendars, entertainment guides, top-rated restaurants, access to California's truly unique and unusual offerings, what's hip, "insider" information;
- Logistical help (time needed to tour a region, drive and travel time between cities, best routes, various modes of transportation available);
- Travel incentives (discount on hotels, airlines, car rentals, meals);
- Unedited traveler commentaries and reviews; and
- Comprehensive list of restaurants, hotels, tours—not just those that pay to be advertised on the site.

(CTTC Focus Group Research, 2007)

Web Site

The Web site is a comprehensive communication tool that addresses the needs of consumers, assessed businesses, media, and travel trade. As such the Web site needs to represent the brand image of California as well as provide a comprehensive service of tools to the end users. In order to best serve all of these users, the Web site platform must be capable of providing content based on the many user types. The foundation needs to be built to scale so that international Web sites can be built, content easily managed (by internal staff as well as Web site users), and increased traffic can be met with stability of function.

As the latest technologies are rapidly changing, planning more than two years out will most likely be missing the mark. Key to the strategy is to continually research and listen to the latest trends of technology and be able to respond with tactical planning.

Consumers

Research shows that consumers use the Internet as a primary planning tool in the U.S. and other primary global markets. Consumers generally don't look for official state sites; focus groups revealed that they often didn't think they would find valuable information on those sites and they thought that it would be biased information. Focus groups showed that when they actually went to official state and country sites and found that the information was fairly comprehensive and helpful, they were more likely to return to that type of site in the future for planning. Sites with consumer reviews were appreciated since the opinions are from peers, especially for places they've never been to (while consumer reviews are considered relatively credible, people do look for themes and realize that not every review is reliable).

When it was time to book, most consumers wanted to use the larger commercial sites (Travelocity, Expedia) for the best comparative pricing. Then, they either book through these sites or directly through the airlines and hotel Web sites for the best deals.

Web-based technology will allow CTTC to effectively and efficiently communicate with international consumers, travel trade, media and industry partners.

The current Web site was received with an initial favorable response—the look and feel expressed the spirit of California that people expected and the interface indicated that they would be able to get the information they were looking for. But when users actually tried to find information or plan a trip, they became quickly frustrated and were unable to complete their tasks easily.

In general, there are several layers of information that users are looking for on the visitcalifornia.com Web site:

1) Visual appeal. Beautiful images of places they can visit (with the ability to get more information about those places).
2) Detailed information. Information about things they can do, places to stay and eat, and practical information for getting around in an easy to use interface.
3) Ideas. Pre-packaged plans or itinerary ideas that provide a basis for their own trip plans.
4) Personalization. Ability to create custom plans or itineraries based on personal settings.
5) Functioning search.

For international markets, the same information in a local language along with modifications based on particularities of culture is desired.

Business Partners

Assessed businesses and other business partners such as California Welcome Centers (CWCs) and statewide Destination Management Organizations (DMOs) need the Visit California Web site to serve them as an advertising tool, providing opportunities for placement on the Web site and listings.

Media and Travel Trade

The Web site is already a tool for providing valuable research to the travel trade and media. To enhance this relationship and expand marketing reach, materials including photos and video need to be made available on the Web in an organized manner.

CTTC will reinforce California's global reputation as the leader in technology by using innovative programming to reach consumers and key constituents.

WEB SITE STRATEGIES:

1	**DEVELOP THE SITE ON A SCALABLE PLATFORM**	In order to provide content needs of any of the target customers, the foundation of the Web site needs to be solid and scalable. The platform will need to accommodate increased traffic. The Web site will need to be easily updated and support a dramatic increase in content input from a variety of sources (internal editorial, consumers, and businesses). The backend will need to be built with a flexible information architecture in order to serve personalized information and relevant information by activity, region, and vacation type.
2	**ALIGN CONTENT WITH CONSUMER EXPECTATIONS**	Consumers are looking for ideas to dream about their trip as well as practical information of what they will find and where they will find it. They expect to see a breadth of content that represents the myriad and enticing attractions of California. Content will be developed to increase the depth in specific activities (based on consumer patterns) like outdoor recreation, culinary tourism, family vacations, and romantic excursions. Itineraries, Must Sees, and Inside Scoops will be augmented to include information personalized based on activity interest (wine tasting, camping, biking, family travel, romantic excursions, urban adventures, etc).
3	**PACKAGE CONTENT TO MATCH BRAND**	The Web site will continue to be tightly aligned with the brand image, keeping the image of California fresh, hip, cultured, sun-drenched, and filled with outdoor recreation. As the brand shifts and develops, the Web site may be altered to meet this image. By building the Web site on an easy-to-use content management system, changes to image and brand will be more easily implemented.
4	**SEARCH ENGINE OPTIMIZATION (SEO)**	The importance of search engine results cannot be understated. Most people who are looking for information on the Web start with a popular search engine like Google or Yahoo. In all phases of Web development, content will be written with natural search results in mind. Depth of content in activity areas will improve as will keeping the site refreshed with updated and seasonal consumer content and top recommendation feeds. Reciprocal links programs are being established that will improve search engine rankings as well as provide value to consumers and partners.
5	**EXPAND REACH GLOBALLY WITH LOCALIZED WEB SITES**	The Web is increasingly becoming a primary tool for global markets and each market demands its own particular nuances in communication. By researching the primary and secondary markets, CTTC will be able to provide localized content structured in the way each country needs it. All international sites will be built using a common content management system allowing shared database for search results and ease of implementation through common templates.

As an augment to California's brand advertising strategies, specific Internet advertising strategies will be employed to drive traffic to www.visitcalifornia.com and related micro-sites.

Provide Opportunities for Business Partners

By developing the site so that assessed businesses can be listed on relevant activity and location pages of the site, assessed businesses will have greater opportunities to reach consumers. In addition, search relevancy will be another opportunity for these businesses to advertise and targeted ad spots throughout the site. By integrating the consumer Web site with the IMIS database, businesses will be able to update their listing directly so that they can be responsible for presenting their business in the best way possible.

Meet and Respond to New Technology

Technology and trends are always changing, and ever more rapidly. Five years ago, Google and the Internet were not the primary method for travel research, but now they are. Mobile phone use is shifting to ever increasing degrees of communication (from wireless Internet to sharing pictures and videos). Social Networking is taking on many new forms across the Web. It is impossible to know where all the technologies are going to go and what will be adopted by consumers over the next five years. Essential to the Web site success is staying abreast of the trends and being flexible enough to shift focus to meet the needs of the ever-changing market.

Traffic-driving Strategies:

As an augment to California's brand advertising strategies, specific Internet advertising strategies will be employed to drive traffic to www.visitcalifornia.com and related micro-sites. Through past online advertising efforts, we have determined that "retail branding," or messaging that reinforces the California lifestyle and attitude while offering a promotional opportunity, generates the most significant click-thru rates (versus brand image only messaging). For example, in February 2007 as part of the California Snow initiative, free "Cali Beanies" were offered as an incentive to drive traffic to www.visitcaliforniasnow.com. More than 17,000 click-thrus were generated in three days. Moving forward, this "retail branding" approach, using promotional items, trip giveaways and/or other motivational incentives to take action, will be utilized to maximize results.

Utilize Search Engine Marketing (SEM) to Reach Consumers While They Are Conducting Research Online.

Consumers are looking for information, ideas and inspiration online. Through key word campaigns built around a variety of niche categories and/or themes, potential travelers will find California as a viable answer to their Google, Yahoo or MSN search, keeping California top-of-mind.

Utilize Banner Advertising to Reach Consumers Through Content or Behavioral Targeting.

In concert with Search Engine Marketing (SEM), banner campaigns built around a variety of niche categories and/or themes will also keep California top-of-mind in relevant ways, and provide incentives for consumers to register into the CTTC database.

Cultivate California's Opt-in Database Using Segmentation Analysis to Increase Relevance and Engagement.

Email marketing to consumers who have opted in to receive communications from California is a powerful means of brand engagement. With the CTTC's new technology platform, a Customer Relationship Marketing (CRM) strategy will be developed to market to this universe of California enthusiasts in ways that are relevant to their interests.


california
DRIVES 2007
BACKROAD DISCOVERY
california
FIND YOURSELF HERE
47
NEW MAPS +
DRIVE GUIDES
Discover
Taste
Play
Enjoy
2007 Official State Visitor's Guide and Travel P
FREE PULL-OUT MAP | ROMANTIC WEEKENDS
Sunset presents
california
FIND YOURSELF HERE
47
NEW MAPS +
DRIVE GUIDES
SPRING GETAWAYS
Sunny Beaches | Backroad Drives
Fun for Kids | Wine Country
PLAN YOUR NEXT TRIP
Resorts | Hotels | Camping
Casinos | Theme Parks
VisitCalifornia.com
2007 Official State Visitor's Guide and Travel Planner

PUBLICATIONS

The objectives of Publications are:

- To deliver on California's brand promise, in both domestic and international markets, while providing the consumer with inspirational content and useful travel information;
- To synergize with www.visitcalifornia.com and drive consumers to the Web site for more detailed planning information and resources; and
- To be a resource for the travel industry to reach out to both domestic and international consumers.

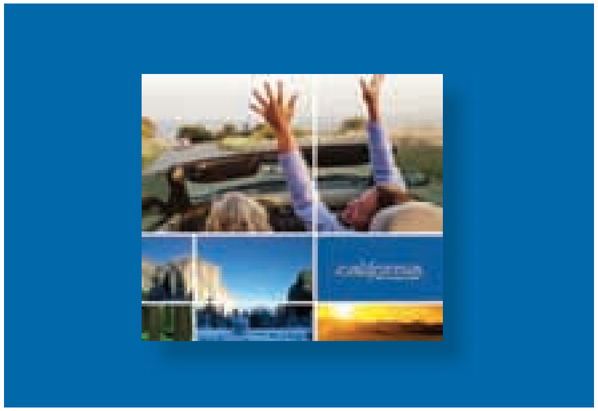
The objectives will be met by:

- Providing a venue for key links that will drop into the Web site where additional and more current content can be found;
- Creating segmented e-newsletters that can reach consumers based on their vacation types and interests;
- Working with known brands to create content and sell advertising for the *California Official Visitor's Guide and Travel Planner*, the *California Official State Map*, the *California Drives Guide*, and the *International California Visitor's Guide*; and
- Being diligent in research to understand current trends in travel market and consumer usage of print media.

As trip planning has moved from a publication-based activity to more of an Internet based exercise, the purpose of travel publications has shifted. Consumers are using printed publications less in the actual planning stages of their trip and using them more as a tool to inspire and help them decide where to take their trip. Given this shift, publications need to touch consumers through rich visual elements and engaging content which will allow them to envision the type of experiences they might have while on vacation in California. In conjunction with this inspirational element, publications must also work in concert with electronic media which can provide them with greater depth of content. www.visitcalfornia.com will meet this need, and electronic newsletters will also be utilized to keep California travel ideas fresh and top-of-mind with travelers. Over the next five years, CTTC will continue to validate these assumptions with research into consumer usage.

The Publications objectives will be measured by:

- Distribution and volume revenue; and
- Random sampling to measure consumer satisfaction.




insights
YEAR IN REVIEW
inside

COMMUNICATIONS

The Communications objectives are:

- To reach targeted media in key domestic markets and international markets;
- To support the California brand message;
- To inform and encourage participation in CTTC programs, opportunities and successes;
- To create lasting impressions through world-class events;
- To attract more industry partner participation in CTTC media events and FAM trips; and
- To provide public relations support for Governor's Trade and Tourism Missions.

These objectives will be met by:

- Building personal relationships with key media through specialized events and personal familiarization tours (FAMs);
- Developing and coordinating public relations, advertising and Web programs that leverage a central theme in key opportunity feeder markets;
- Developing and pursuing broadcast programming opportunities with special interest in international markets;
- Continuing to reach key industry groups through speaking opportunities;
- Addressing niche markets through press contacts and media outreach; involving California brand dimensions in key events (e.g. chefs, entrepreneurs, athletes, celebrities and entertainment); and
- Leveraging media buys to include promotional, on-air mentions.

The Communications objectives will be measured by:

- ROI and media equivalency rates in domestic and international markets;
- Visits to the www.visitcalifornia.com press room; and
- Growth of press contact list through online data collection.


California
TOURISM

TRAVEL TRADE

The Travel Trade objectives are:

- To inform the domestic and international travel trade on California destinations and unique program offerings;
- To work with the travel trade to penetrate new markets and extend sales reach to consumers; and
- To offer cost-effective programs to California industry partners.

The objectives will be met by:

- Establishing travel trade representative offices in primary markets;
- Working with representation/marketing firms that offer support in secondary markets;
- Disseminating travel leads to industry partners;
- Providing a technology platform for the travel industry; and
- Governor's Trade and Tourism Missions support.

The Travel Trade objectives will be measured by:

- Increased California products offerings; and
- The number of tour packages sold to California by tour operators.

Research is critical in analyzing consumer behavior and market trends to strengthen and expand CTTC marketing programs.

RESEARCH

Research objectives are to:

- Provide a vital service to the DMO and assessed business community;
- Aid internal marketing programs and provide input to guide in the planning process; and
- Measure the effectiveness of our programs and provide audit programs through credible third parties for large marketing spends.

CTTC's survey to top assessed business and destination marketing organizations[1] shows that research is one of the highest regarded programs. Sixty-one percent of survey respondents cited that research as a valuable tool.

Key initiatives over the next 5 years:

- International—Increase program to encompass support for primary research in international markets and develop appropriate methods for measuring marketing effectiveness.
- Technology—include Web site satisfaction and feedback into the research program and institute regular Web-based survey and feedback mechanism to create on-going flow of information;
- Produce core research reports on domestic and international visitation, as well as impacts and trends not available anywhere else, to California DMOs and assessed businesses, as well as to other California organizations and businesses;
- Conduct quantitative and qualitative evaluations of CTTC marketing programs and activities to determine return on investment, cost effectiveness, strengths and weaknesses, and to provide feedback for improving program performance; and
- Maintain and expand both static and interactive capabilities and content of the online research repository of California travel and tourism reports, presentations, case studies, and trend documents.

The research objectives will be measured by:

- Industry participation in newsletter subscription;
- Industry satisfaction with frequency, content and communication of research program;
- Baseline brand research conducted for international markets receiving brand advertising support; and
- Continued respect as a leader in the tourism industry.

1 CTTC INPUT SURVEY—FEBRUARY 2007

RURAL TOURISM

The Rural Tourism Program objectives are:

- To extend awareness of the eight rural tourism marketing regions;
- To act as a catalyst to partnership development between stakeholders to grow marketing budgets; and
- To facilitate development of fully-integrated regional marketing plans with a cohesive approach to incorporate California/regional brand into cooperative marketing tactics, public relations opportunities and trade messaging.

Objectives will be met by:

- CTTC staff and contractor participation in regional meetings and conferences to facilitate participation in leveraged cooperative efforts domestically and internationally;
- Providing seed funding to galvanize partnerships between stakeholders; and
- Providing tools for participation in cooperative marketing campaigns as well as collection of photography and data for universal uses.

The Rural Tourism Program objectives will be measured by:

- Increased membership in the regional marketing groups;
- Increased participation in cooperative marketing programs; and
- Visibility of rural regional assets in CTTC collateral and programs.

CALIFORNIA WELCOME CENTER

A PARTNERSHIP WITH CALIFORNIA TOURISM

LOCATIONS

VISITOR SERVICES/CALIFORNIA WELCOME CENTERS

The Visitor Services (VS)/California Welcome Centers (CWC) objectives are:

- To provide an educational tool to enhance the visitor experience;
- To encourage an extended length of stay in California; and
- To ensure that each of the State's 12 regions has a CWC in a prime location to serve visitors.

The objectives will be met by:

- Selling California-branded merchandise;
- Informing visitors of in-state travel resources; and
- Integrating exposure into existing programs such as Web site listings where appropriate.

The VS/CWC objectives will be measured by:

- Visitor lengths of stay;
- Visitor satisfaction; and
- Service consistency.

international marketing summaries

Visitor volume, travel expenditures, and market share are key indicators in determining CTTC's primary international markets. California's top international markets are: Mexico, Canada, U.K., Germany, Japan, and Australia.

INTERNATIONAL PRIMARY MARKET SUMMARY

	MEXICO (AIR)	CANADA	UK	JAPAN	AUSTRALIA NEW ZEALAND	GERMANY
MARKET SHARE	29.7%	6.8%	17.9%	18.6%	53.8%	21.8%
VOLUME	AIR 496,000 LAND 8.1M	1,060,000	778,000	722,000	402,000	309,000
PER PERSON TRIP SPENDING	$937.40	$696.83	$759.20	$1196.80	$952.30	$1166.40
LENGTH OF STAY (NTS/VISIT)	6.2	8.6	7.3	6.8	8.9	14.4
MARKET SHARE CHANGE, PTS (2000/2005)	+3.7	<0.3>	+1.6	<3.2>	<7.9>	<0.3
COMPETITIVE VOLUME	TX: 330K F: 292K	NY: 2.3M FL: 1.9M MI: 1.1M	FL: 1.5M NV: 448K	HI: 1.5M GUAM: 840K	NY: 224K NV: 117K	NY: 420K FL: 282K NV: 110K

SOURCE: CIC REASEARCH INC., 2006; STATS CANADA, 2006; CALIFORNIA TOURISM, 2007

OVERVIEW

Seventy-five percent of California international visitors come from five primary markets: U.K., Japan, Germany, Australia/New Zealand, and Mexico. In 2005, international visitors represented 14.4 million person-stays in California, and generated $12 billion in travel spending. Outbound travelers from Japan represent the largest dollar figure of other international visitors in per-person trip spending in California at $1,196.80.

California's biggest international market is Mexico, which represented 29.7 percent of the nation's market share in 2005.[1] Visitors arriving by air totaled 496,000 visitors, while those arriving by land totaled 8.1 million.

Approximately $20 million is proposed for allocation to international marketing programs, the bulk of which will be new market development and building on existing international markets in 2007 and beyond. California's market share of overseas visitors has declined since the late 1990s. Applying $20 million of CTTC's expanded $50 million budget to international marketing is expected to bring California visitation back to pre-9/11 levels and generate an additional $1.7 billion in overseas visitor spending. This spending would generate $66.7 million in additional state tax revenues and directly support 18,000 additional jobs.

The $20 million international marketing budget will allow CTTC to develop a stronger presence in California's primary international markets. CTTC has had representation in Germany, the U.K., Japan and Australia since 2000. CTTC will enter into contract in 2007 with Mexico representation. CTTC will explore in-country representation in Canada as this market continues to show signs of growth. International markets are chosen based on volume, visitor spending, length of stay, and opportunities for growth..

Marketing programs will focus on direct-to-consumer strategies in key volume regions to include the U.K., Germany, Japan, Australia/New Zealand, Canada and Mexico. New, integrated marketing tactics will extend beyond traditional travel trade and public relations programs. CTTC intends to also introduce California branded advertising in four markets: U.K. Japan, Canada and Mexico. Rather than dilute funds across all international markets, high volume/high yield markets were chosen to focus consumer branded and advertising efforts.

CTTC will also explore opportunities in secondary volume markets such as France, Scandinavia and Brazil. Emerging markets such as China, India and Korea will be vital to California's long-term success with overseas markets. Research indicates that visitor volume will surpass California's current primary markets in the next 20 years. Early market penetration is critical in emerging markets in order to introduce California brand messaging, create familiarity and establish loyalty among consumers well before they are ready to travel.

In a unique approach to generating awareness of the California brand in international markets, CTTC, in conjunction with the the Governor's Office, has developed a successful program to anchor California in key international markets. The Governor's Trade and Tourism Missions program features Governor Schwarzenegger and tourism industry delegates who travel together to various cities within a target market to promote California to international consumers, media, travel trade, and industry leaders.

Governor's Trade and Tourism Missions

- Japan: Tokyo. November 2004
- China: Beijing, Shanghai, Hong Kong. November 2005.
- Mexico: Mexico City, Monterrey. November 2006
- Canada: Toronto, Ottawa, Vancouver. May 2007
- India: under consideration by Governor's Office.
  Tentative November 2007

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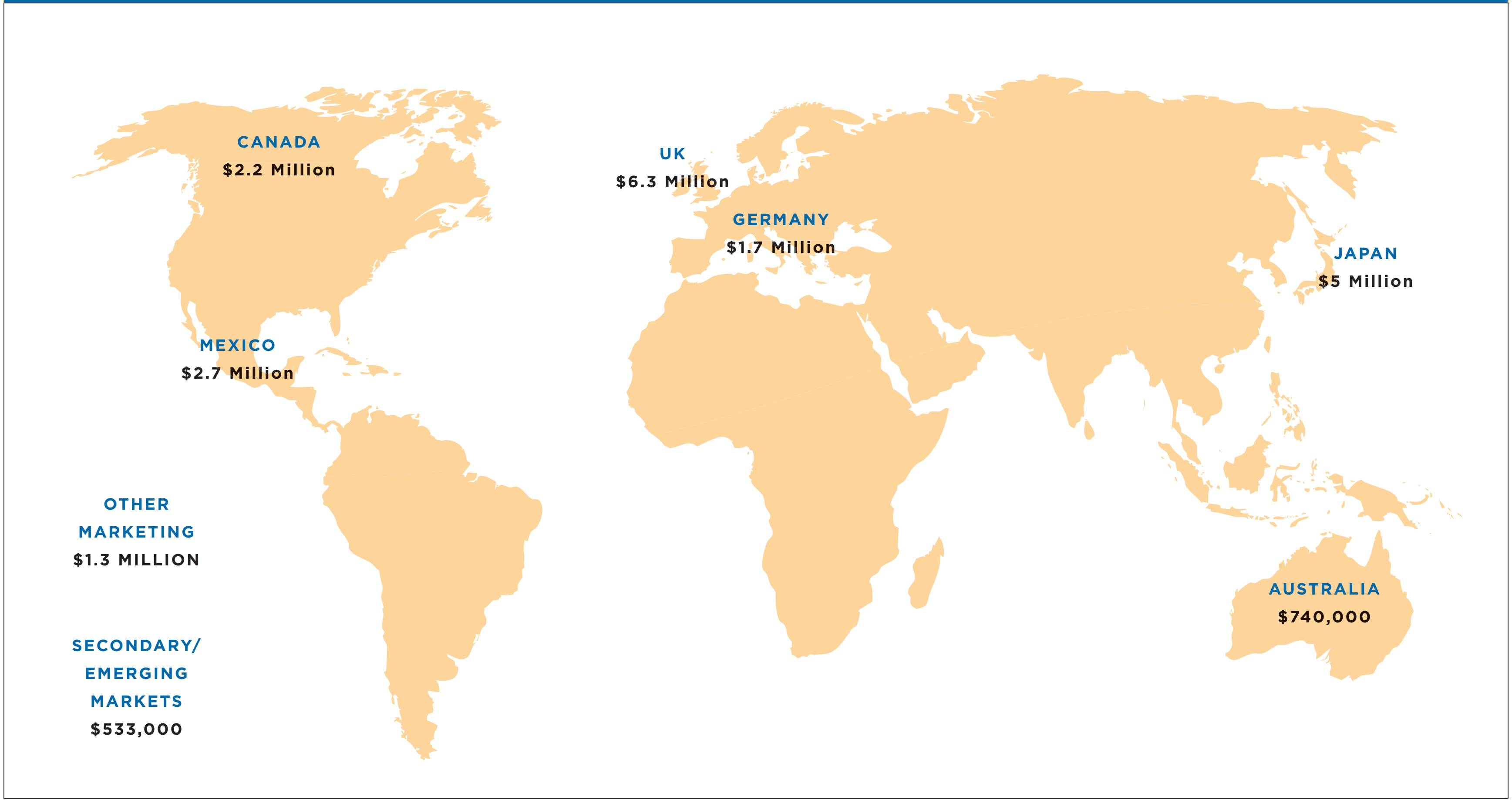
1. CA SHARE OF MEXICAN AIR VISITORS TO U.S.

INTEERNATION SPENDING

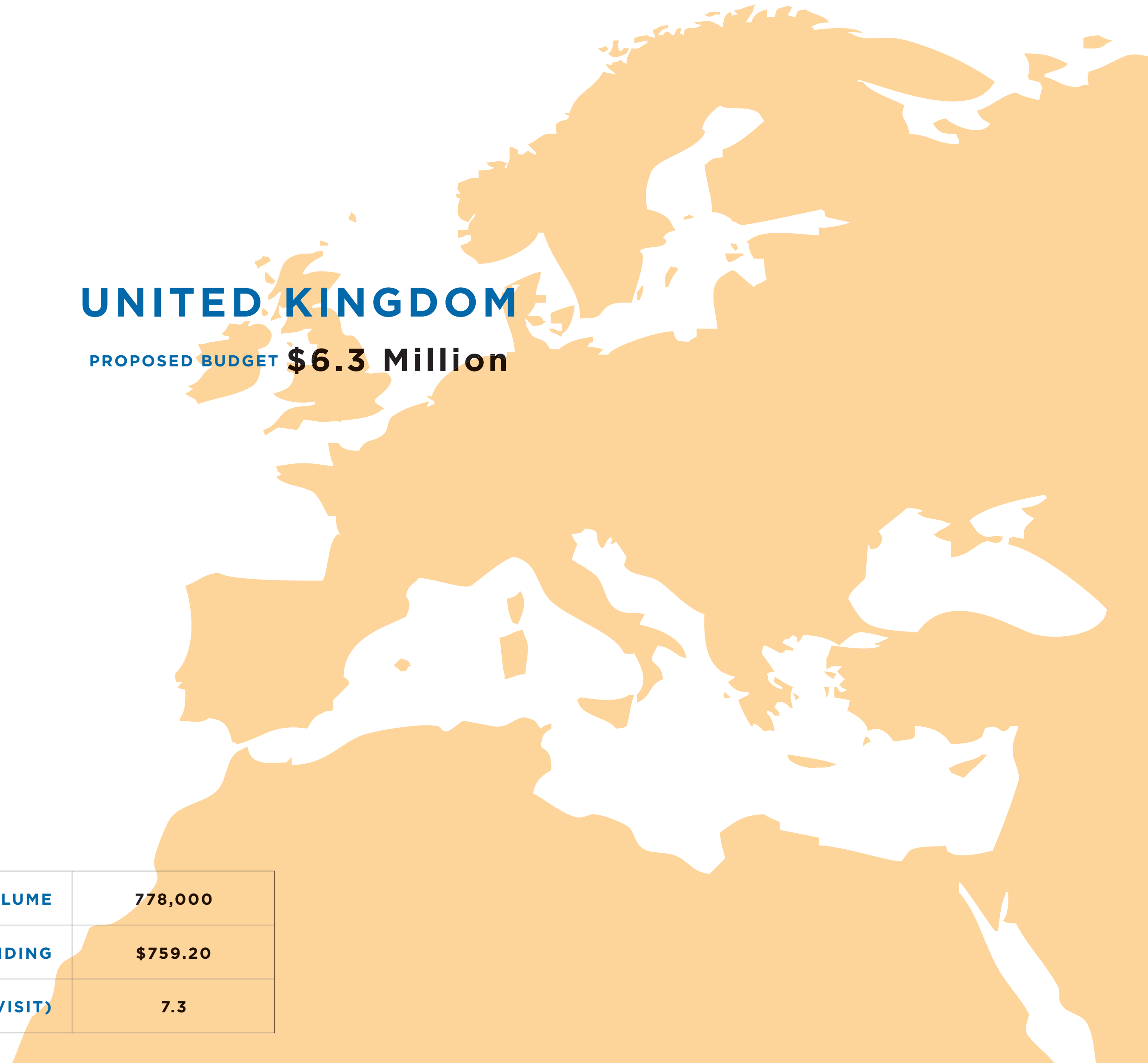


THE OVERALL INTERNATIONAL MARKETING OBJECTIVES TO REACH CONSUMER, TRAVEL TRADE AND MEDIA AUDIENCES ARE:

- To establish a deeper presence in primary markets;
- To use technology and public relations as low-cost methods for consumer outreach in secondary markets;
- To create reach consumers directly through local language Web sites in Japanese, German, Spanish, Chinese and French; and
- To work directly with DMOs in emerging markets to coordinate marketing efforts and approach.

UNITED KINGDOM

PROPOSED BUDGET $6.3 Million



VOLUME	778,000
PER PERSON TRIP SPENDING	$759.20
LENGTH OF STAY (NTS/VISIT)	7.3

UNITED KINGDOM

Information Provided by Black Diamond:
Located at Bedford Chambers,
The Piazza, Covent Garden, London WC2E 8HA

Background:

In 2006, the U.K. represented 790,000 of California's visitors. The U.K. is California's third ranking market in visitor volume, and fourth in visitor's spending at $591 million. Package holidays account for 43 percent of the British market, while 24 percent of visitors book flights to California direct with airlines online. California investment in the U.K. market has been weak over the past seven years. The Visit America Alliance (VAA) advertising spend for 2006 was $3.4 million, representing only 6.2 percent of the National Tourist Office's share of the voice. The lack of media investment coupled with the competitive nature of other foreign markets makes the United States the only country in the world to have gained no share of the estimated 20 percent increase in the global U.K. long-haul travel market since 2000.

Successful media partnerships on behalf of California Tourism over the past five years have included highly-leveraged initiatives using cinema and television, including IMAX Adventures in California, Golf California, and Taste of California.

FY 2006/2007 saw a concerted reengagement of the travel industry and key travel partners with California through product development initiatives, education programs, cooperative marketing campaigns, and a dedicated California Tourism office in the U.K.

The objectives of the U.K. in-market campaign are:

- To actively switch the emphasis from tour operator to consumer by way of increased Internet activity and direct selling tools;
- To make California the top long-haul destination from the UK;
- To have more than 1 million visitors from the UK; and
- To show an increase in visitor spending above $1,000 per person and increase visitation stays by 20 percent.

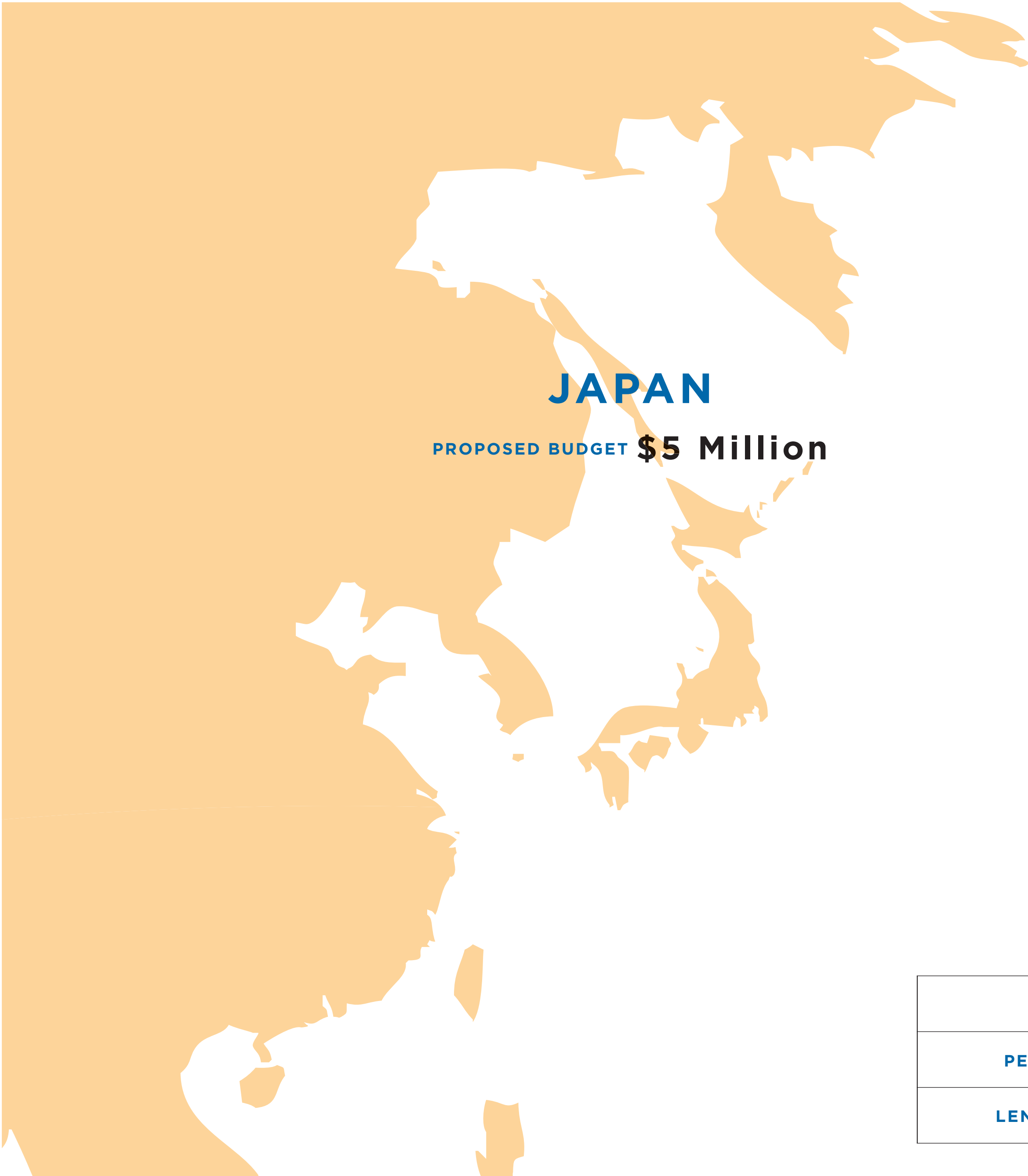
Objectives will be met by:

- Establishing an integrated approach to brand advertising, cooperative promotions, public relations and trade messaging;
- Establishing on-going high yield cooperative partnerships with U.K. brands to further awareness and saliency of California brand;
- Expanding familiarization programs to key industry leaders and new tour operators;
- Developing online training scheme for trade partners ensuring current information and effective selling tools; and
- Developing www.californiatourism.co.uk consumer facing Web site with strong trade links.

Objectives will be measured by:

- PR media equivalency;
- Overall visitation;
- Advertising ROI; and
- Travel Trade brochure distribution.

The U.K. represented 790,000 California visitors in 2006. This market accounts for $6.3 million in travel spending and stays an average of 7.3 nights.



JAPAN

PROPOSED BUDGET $5 Million

VOLUME	722,000
PER PERSON TRIP SPENDING	$1196.880
LENGTH OF STAY (NTS/VISIT)	6.8

JAPAN

Information provided by Marketing Garden.
Located at International Palace 3F4F,
Sanei-cho 26-3, Shinjuku-ku, Tokyo, 160-0008, Japan

Background:

Over 17 million Japanese traveled overseas in 2006, near all-time record levels of 2000. Outbound travel is expected to grow to 20 million passengers by 2010, with 5 million traveling to the United States. The United States is the top aspirational destination for Japanese. In 2005, travel from Japan to California was up 14.6 percent over 2004 with 722,000 Japanese travelers visiting California. By comparison, other U.S. destinations were down in 2006, including Hawaii which was down 9 percent. While Japanese travel to California in 2007 is expected to flatten due to decreases in Transpacific airlift, there exists significant growth potential among this audience over the next three to five years. Japanese travel to California peaked 10 years ago at 1.25 million visitors.

Japanese visitors to California generated $864 million in travel-related expenditures in 2005. This number represents over 32 percent more than the U.K. market, California's second highest market in overseas spending. Japanese visitors spend an average of $138 per day, more than any other California visitor. Twenty-five percent of Japanese travelers spend over $2,400 per trip. Japanese travel is well-distributed throughout the year.

The image of California among travelers in Japan is overwhelmingly positive, yet needs to be updated and refreshed. Awareness of California is high and Japanese media are interested in providing high-value, high-impact coverage. Japanese travelers report high satisfaction levels after visiting California, indicating a strong correlation between what the destination offers and what travelers expect. Most Japanese visitors are heavily concentrated in San Francisco and Los Angeles, offering potential for other California regions to introduce a new experience.

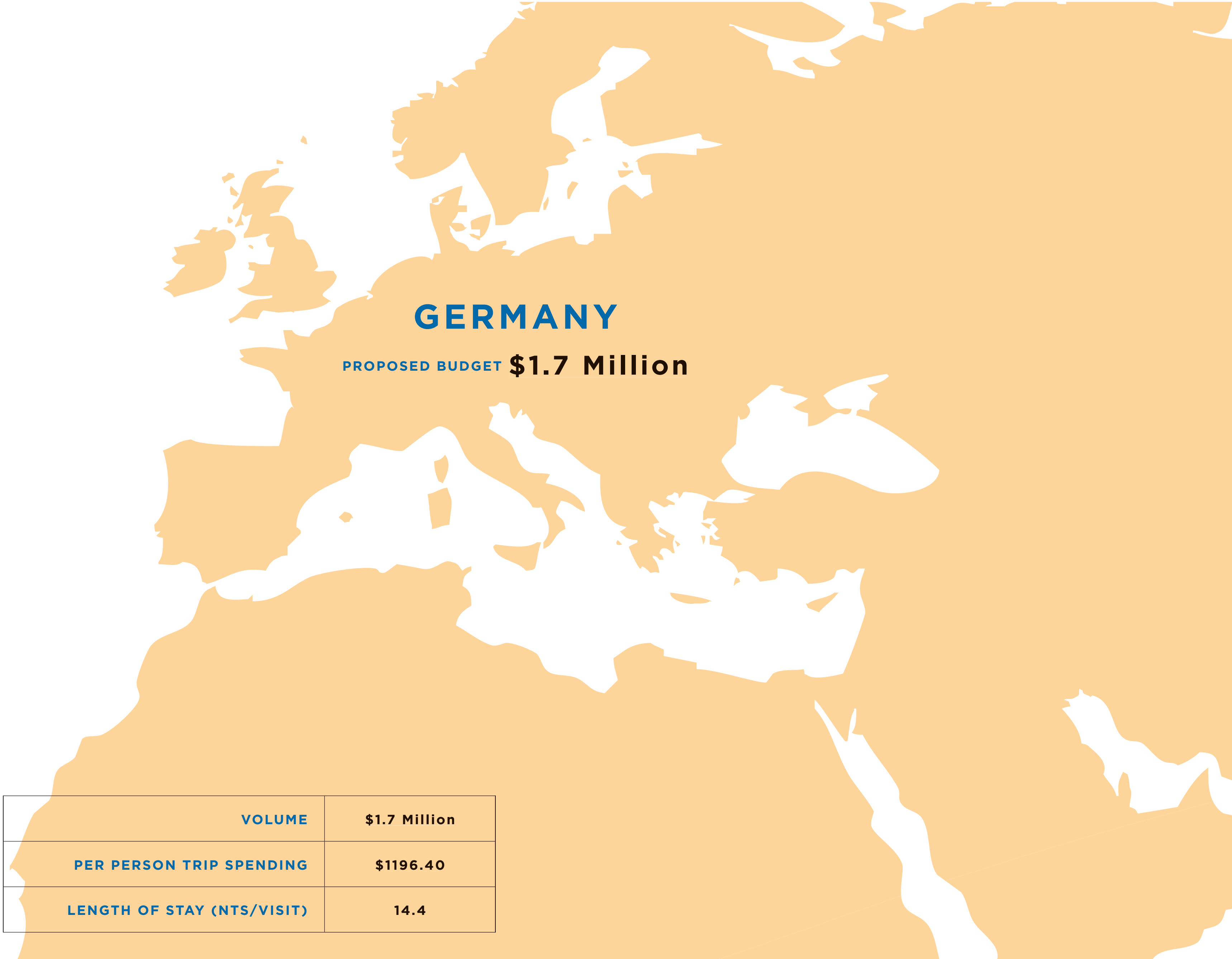
The objectives of the Japanese in-market campaign are:

- To increase the number of visitors, expenditures and length of stay; and
- To grow California's market share among U.S. destinations.

Objectives will be measured by:

- Ad effectiveness and ROI;
- PR media equivalency;
- Web site traffic; and
- California products in travel trade brochures.

Outbound travel from Japan to the United States is expected to grow to 5 million passengers by 2010. Japanese spend more per trip than any other visitor to California, and stay an average of 6.8 nights.



GERMANY

PROPOSED BUDGET $1.7 Million

VOLUME	$1.7 Million
PER PERSON TRIP SPENDING	$1196.40
LENGTH OF STAY (NTS/VISIT)	14.4

GERMANY

Information provided by MSi—
Marketing Services International.
Located at Frankfurter Strasse 175, 63263
Neu-Isenburg, Germany

Background:

The German consumer traditionally takes at least one main vacation per year, while some take three or four trips outside the country. Approximately 309,000 Germans visited California in 2005, representing 22 percent of U.S. market share. Germans have among the longest length of stay, averaging 14.4 nights in California, and account for an estimated $360 million in travel expenditures in California. Germans enjoy an average of 28 vacation days and 10 public holidays a year.

Long-haul vacations have increased almost every year in the past decades. Affordable airfare and a strong Euro have made travel more accessible to middle and lower income households. The decision-making process for long-haul trips averages six to eight months, sometimes longer, before travel originates.

The main programs during the past years have consisted of travel agents and tour operator staff trainings, coordination of familiarization trips, non-traditional promotions with movie industry partners and others, sales calls to key tour operators, information services for the travel trade and attendance at the main travel trade shows such as ITB and Pow Wow.

The objectives of the Germany in-market campaign are:

- To reach a 5–10 percent increase in visitors per year;
- Build and improve California's brand image;
- Enhance consumer knowledge on California's tourism products;
- Promote California's main and lesser-known destinations;
- Continue to educate the travel trade; and
- Proactively support paid and unpaid media projects.

Objectives will be measured by:

- California products in travel trade brochures;
- PR media equivalency; and
- Web site traffic.

Approximately 309,000 Germans visited California in 2005 and accounted for an estimated $360 million in travel expenditures for California.

VOLUME	313.000
PER PERSON TRIP SPENDING	$952.30
LENGTH OF STAY (NTS/VISIT)	8.9

AUSTRALIA/NEW ZEALAND

Information provided by Gate 7 PTY Ltd.
Located at 32 Crown Street,
Woolloomooloo, NSW 2011, Australia

Background:

The Australian/New Zealand (NZ) market represents 8.4 percent of the total inbound market to California, equating to approximately 400,000 visitors per year and 54 percent of U.S. market share. With direct access into two of the West Coast's main airports, 78 percent of Australian and New Zealand travelers entered the United States through California. Length of stay, however, is an average of two days less than other inbound travelers.

Steady growth in the Australian dollar/U.S. dollar exchange rate in recent years has prompted increased travel to the United States. Inbound travel to the U.S. was up 9.1 percent over the previous year.

Travel agents play a significant role in the buying behavior of the Australian/NZ market to the U.S. Travel agents are used for researching and purchasing trips. Approximately 76 percent of travelers book through a travel agent (CIC Research, 2006), because customers feel they need the security of travel agents for booking long-haul travel and complex itineraries.

Due to current advertising, travelers have a restricted view on what California can offer as a destination. Those who have visited California's popular urban areas report that they feel they have experienced all that California has to offer. Unless other California experiences and destinations are introduced and promoted in the marketplace, it is unlikely this misperception will change.

The objectives of the Australia/New Zealand in-market campaign are:

- To increase the average length of stay for the Australian/NZ market from 8.9 nights to 11.9 in three years;
- To increase the number of nights spent in regional areas by 20 percent over the next three years;
- To increase the coverage in number of pages of regional product in the 2008/2009 wholesale brochures by 30 percent over three years;
- To increase the awareness and perceptions of California experiences beyond the city experiences;
- To organize familiarizations for 100 Australian agents/reservation staff and 20 New Zealand agents/reservation staff;
- To use online technologies to better inform consumers through a local version of www.visitcalifornia.com. Increase Web site visits by 20 percent in FY 2007/2008;
- To use technology to train 200 agents in FY 2007/2008 on California products through online modules;
- To increase the media coverage value by 10 percent over the next three years; and
- To increase the percentage of media focused on non-urban destinations to 25 percent in FY 2007/2008.

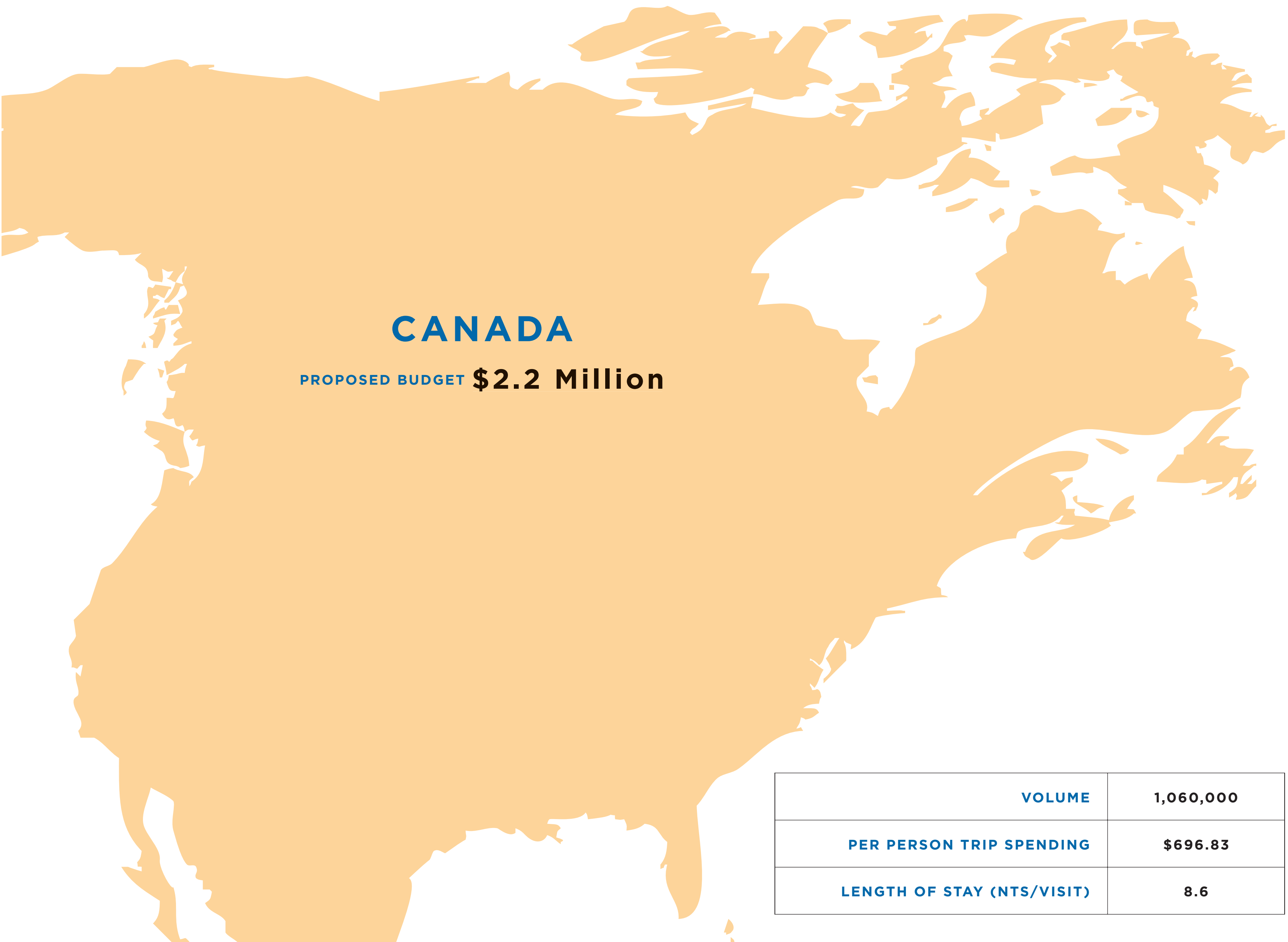
These objectives will be met by:

- Developing partnerships that support the California brand;
- Partnering with travel trade to provide product information and train personnel on the variety of experiences that California offers;
- Producing a local portal Web site to promote California experiences and destinations, and invite consumers and travel trade to become part of a California community through online community initiatives; and
- Supporting marketing activities and expanding consumer perceptions of the possibilities in California through consumer publications, travel trade and broadcast media outlets.

Objectives will be met by:

- California products in travel trade brochures;
- PR media equivalency; and
- Web site traffic.

Approximately 400,000 Australians/New Zealanders visit California each year, staying for an average of 8.9 nights.



CANADA

PROPOSED BUDGET **$2.2 Million**

VOLUME	1,060,000
PER PERSON TRIP SPENDING	$696.83
LENGTH OF STAY (NTS/VISIT)	8.6

CANADA

Background

According to Stats Canada, travel volume from Canada to California has shown positive growth over the past five years. Of the nearly 14.9 million Canadian visitors to the U.S. in 2005, over 1 million visited California. Approximately 372,000 (37 percent) of Canadian visitors to California are residents of British Columbia, with 305,000 (30 percent) from Ontario, 170,000 (17 percent) from Alberta, and 86,300 (9 percent) from Quebec.

The average party size is 1.87, with 41 percent traveling in groups of two adults, 21 percent traveling alone, 15 percent traveling in groups of three or more adults, and 11 percent as two adults with children. A majority of Canadian visitors arrive by plane (77 percent). The average length of stay is 8.57 nights.

In FY 2006/2007, CTTC began a brand advertising effort in Canada as an extension of the domestic U.S. ad strategy. Based on geographic proximity and shared cultural values, the effort mirrored the U.S. spot market television strategy and "Lucky Day" aired on major Canadian networks in Calgary, Edmonton and Vancouver. In Canada, U.S. network and syndicated programming are packaged with Canadian-produced programming, with a limited supply of commercial minutes available (12 minutes per hour), providing a relevant and uncluttered environment for California's message.

Spending for this first-time television effort was $800,000 for nine weeks. In FY 2007/2008, CTTC will increase spending in Canada to $1.9 million (a 138 percent increase).

Objectives for Canada in-market campaign:

- To facilitate top-of-mind awareness of California as a premiere travel destination;
- To generate acceptance of and preference for California; and
- To drive traffic to the Web site.

The objectives will be met by:

- Targeting Canadian leisure travelers with the greatest propensity to visit California;
- Concentrating promotion efforts in the 4th and 1st quarters when travel volume is the highest;
- Flight media based on length of travel planning times—closer proximity provinces are akin to U.S. Primary domestic markets and longer haul provinces are akin to U.S. national opportunity; and
- Expanding the media mix to include a combination of television and Internet search engine marketing (SEM) to drive traffic to www.visitcalifornia.com.

Objectives will be measured by:

- Ad effectiveness and ROI;
- PR media equivalency; and
- Travel volume from British Columbia, Ontario and Alberta.

Marketing programs in Canada will be an extension of CTTC's consumer strategies based on Canada's familiarity with the California brand and the nature of broadcast programming in Canada.

MEXICO

PROPOSED BUDGET $2.7 Million

VOLUME (AIR)	496,000
VOLUME (LAND)	8.1 Million
PER PERSON TRIP SPENDING	$937.40
LENGTH OF STAY (NTS/VISIT)	6.2

MEXICO

CTTC will enter into contract with a representative firm in Mexico in spring/summer 2007, at which time program objectives and measurements will be outlined.

Background:

Mexico is California's top international market. Total Mexican travel to California is more than double the total volume of travel to California from Europe and Asia combined. There were approximately 8.6 million Mexican visitors to California in 2005. An estimated 4.8 million of Mexican visitors are day visitors. About 496,000 overnight visitors from Mexico arrive via air and roughly 3.3 million Mexicans arrive by land and travel to and through California beyond the border area. Compared to California's inbound air travelers from all international destinations, Mexico ranks fourth after Canada, U.K., and Japan.

California's share of Mexican air travel to the U.S. fluctuates from year to year. It rebounded from 27.4 percent to 29.7 percent in 2005, while Florida and New York reported substantial decreases. In 2006, Texas, New York, and Florida gained and Nevada, California, and Illinois either posted declines in air arrivals or grew at a rate less than the national average. Mexican air visitors to California tend to center their trip itineraries on Los Angeles (49 percent), San Francisco (35 percent) and San Diego (13 percent).

The major travel periods for Mexicans are July and August and Easter and Christmas seasons. The most important competitors for the United States are Mexican destinations, due to the facilities and attractions within Mexico. International competitors include Canada, Europe and, more recently, South American countries such as Argentina, Chile and Brazil.

At issue with the Mexican market is its relative "invisibility" to the California travel industry. This is due to the high VFR, or "Visit Friends and Relatives," component whereby visitors "blend" into the backdrop of California's resident Hispanic population, and to the lack of reliable statistics on the non-air segment, which experts estimate, but have great difficulty confirming, as 15 times as high as the number of air visitors.

Total Mexican travel to California is more than double the total volume of travel from Europe and Asia combined.


SCANDINAVIA
FRANCE
BRAZIL

SECONDARY AND EMERGING MARKETS

SECONDARY MARKETS

Secondary markets represent a significant opportunity for long-haul visitation to California. Research indicates that Scandinavia, France and Brazil contribute heavy travel volume and extended lengths of stay in California. These affluent markets are a good cultural match for California. While California Tourism currently has no in-country representation in any of these markets, there exists a lightweight brand presence. Increased funding levels will allow California Tourism to develop basic in-country marketing programs at low investment levels with concentration in travel trade and public relations, and online technologies.

Scandinavia

Scandinavia & Finland (Nordic Region) combined ranked as the 5th largest market for visitor arrivals to North America in 2006. Travel to the U.S. is expected to grow by 10 percent compared to 2006 with a total of approximately 800,000 visitors. On average, Scandinavians' length of stay in the U.S. is 9.3 nights, and the average expenditure is $800 per stay, up from $550 per stay in 2002. Scandinavians enjoy six weeks of vacation a year. The average traveler vacations for three weeks in the summer, one week in the fall, one week in the winter, and normally spends Easter week away from home. The population of Scandinavia is 24 million people.

More visitors are using the Internet to book air travel and to gather travel information.

Web bookings for air travel increased, and 2/5 of visitors used the Internet to gather travel information in 2006. Only 45 percent of Scandinavian travelers used a travel agent to gather travel information, down by 26 percent in 2002. The Scandinavian countries are largely controlled by 20 retail and wholesale agencies that have the purchasing power to mass purchase airline seats, hotel rooms, rental cars and other services.

Other than Finland, which has adopted the Euro, all other countries maintain their own currency while still being part of the EU, with the exception of Norway, an oil-rich state. Norwegians enjoy the highest standard of living with a per capita average income of $55,000. Scandinavian currencies have appreciated 30 percent on average in the past year making the U.S. dollar an extremely attractive value.

Over the next 10 years, travel is expected to increase among active seniors age 50 and 75. This group is healthier and more active than previous generations of the same age, and has a higher disposable income conducive to travel. For many, booking and price considerations will be important. Also, as multi-generation families travel together, a significant challenge will be meeting the needs of all age groups. Global well-being will impact motivations for travel and traveler needs. Leisure time has become a key opportunity to enhance well-being and a sense of escape for increasingly complex and hectic lives.

Eco-consciousness has become more important as companies and individuals work to become "carbon-neutral." Sustainable tourism aimed at supporting the development of local cultures and protection of the environment is gaining importance.

Luxury packages, city breaks, golfing, spa and wellness, and culinary and wine-related activities have increased over the past years due to strong economies in all Scandinavian countries. Sweden has more than 400,000 registered golfers, Denmark has 300,000, and Norway has approximately 150,000.

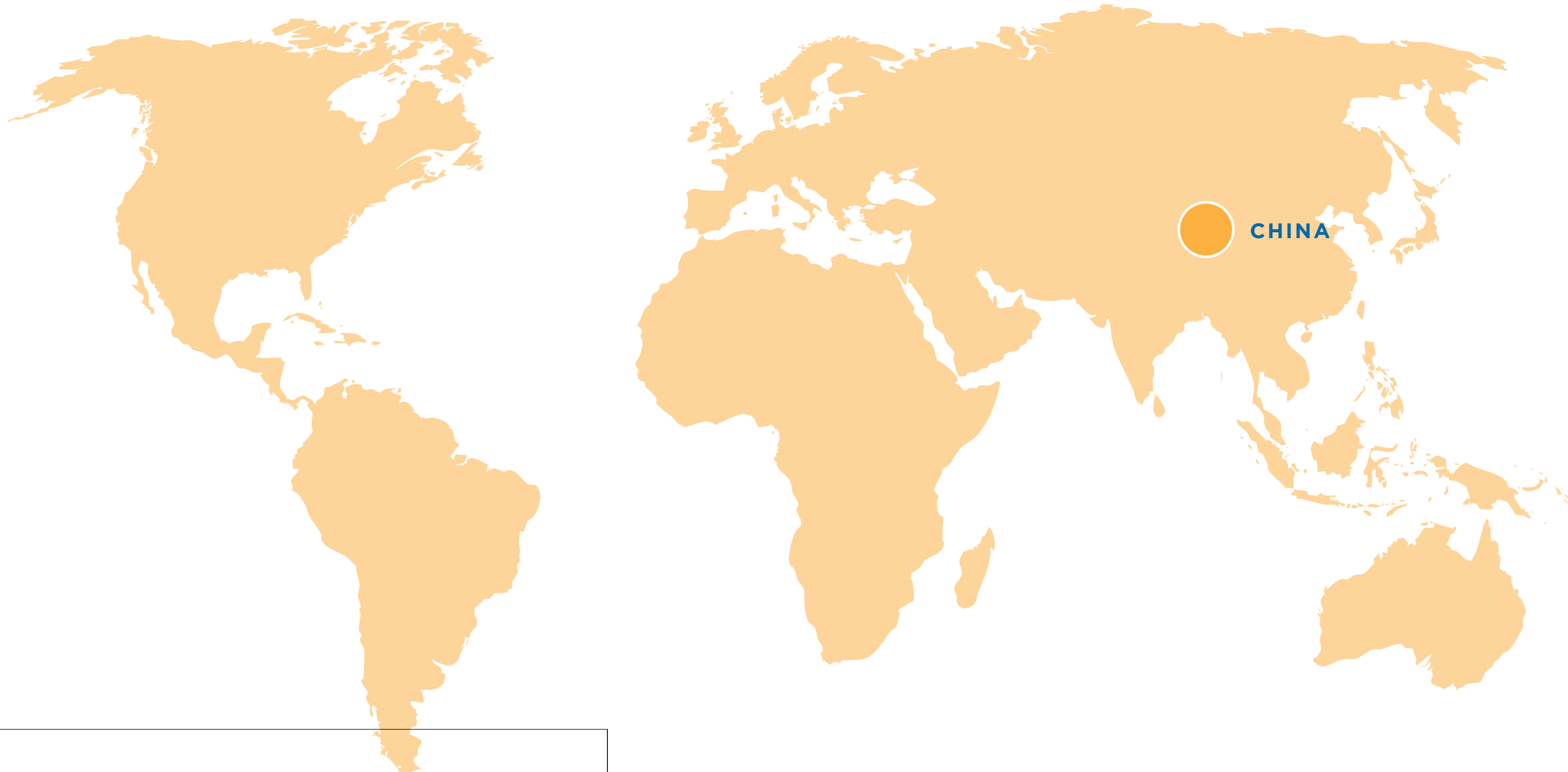
France

France is the 6th top generator of visitors to the U.S. (879,000) and 5th in visitors to California.

California's market share of French travelers is approximately 260,000 or nearly 30 percent of the total U.S. market share. French visitors stayed an average of 9.6 nights in California in 2006 and 84 percent chose a hotel as their primary type of accommodation. French visitors spend an average of $107 per day compared to $103 for all overseas visitors. French traveler expenditures in California total an estimated $268 million.

Brazil

Brazil is the top travel market to the U.S. from South America with nearly 500,000 travelers annually, and is expected to grow by 28 percent from 2006–2011. California receives approximately 15 percent (75,000–90,000) of Brazilian travelers to the U.S. Brazilians are affluent travelers; spending in 2006 increased by 11 percent. Brazil is the 11th largest economy in the world.



The World Tourism Organization projects that China will grow from 34.5 million outbound travelers in 2006 to over 100 million outbound travelers within 12 years.

EMERGING MARKETS

Select Asia-Pacific countries represent important travel trends in developing markets. China and India are among the fastest growing overseas markets with noteworthy potential for California in the next 10 years. Korea follows close behind. China, India and Korea collectively contributed 496,000 visitors to California in 2006. As a major port of entry for the Asian market, California is poised to be the leading long-haul destination as travel restrictions ease in emerging markets. Increased funding will allow California Tourism to further explore visitor opportunities in China, Korea and India with minimal investment. Developing the California brand now among these audiences is an investment in future visitation.

China

Background

The number of Chinese outbound travelers soared to 34.52 million in 2006, more than double the size of Japan's outbound travel market of 17.5 million. China's outbound travel market grew at more than 11 percent in 2006, making it one of the fastest-growing outbound travel markets in the world. The World Tourism Organization projects that China will grow from 34.5 million outbound travelers in 2006 to over 100 million outbound travelers within 12 years.

The image that Chinese tourists don't spend or have virtually no disposable incomes is outdated. Spending on overseas travel in 2005 by Chinese was up 75 percent from 2003—an amazing increase in only two years. Spending increased by 16 percent in 2006, to an estimated $25.3 billion. China is the world's second fastest growing travel spend market in the world, growing at twice the global average. Shopping excluded, the average daily spend by Chinese tourists overseas in 2006 was $175. Including shopping, Chinese tourists spend more per trip than any other nationality in the world as a result of shopping for friends and relatives. Chinese travelers spend $987 on average per person, per trip.

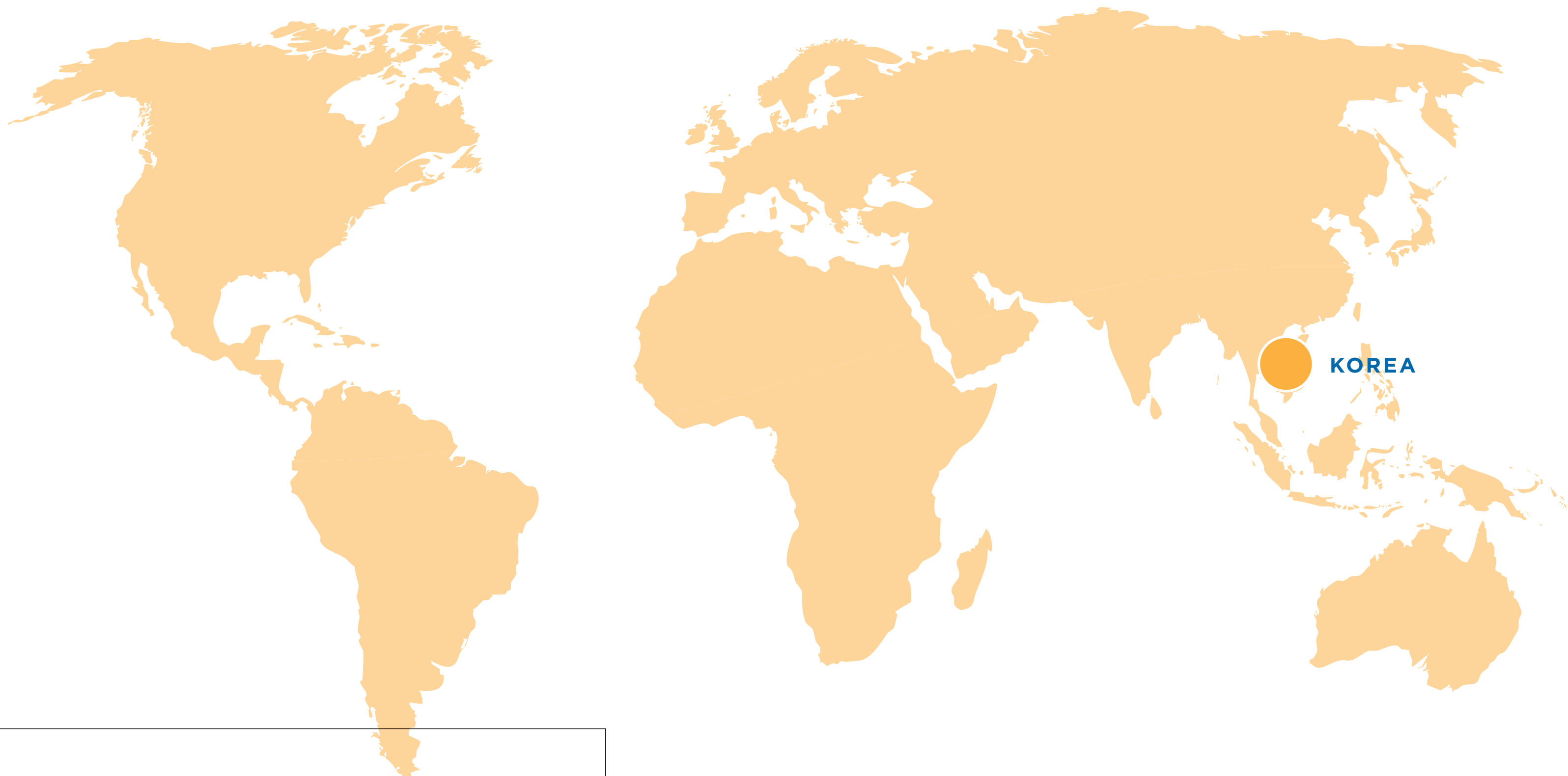
In 2005, China ranked 7th in the world in terms of total travel spend and is projected to rise to 2nd place in the world within eight years. The World Tourism Organization predicts that by 2020, average per capita expenditure overseas will be $1,000 per person in China, a nation of 1.4 billion people. China is now the third largest consumer of luxury goods in the world, accounting for 12 percent of luxury good sales worldwide, a dramatic increase from just 1 percent of global luxury good sales only five years ago. China will surpass Japan as the world's second largest purchaser of luxury goods within eight years when China is projected to account for 29 percent of global luxury goods sales.

U.S. Travel:

The United States issued 350,000 visas to Chinese in 2006. Chinese travel to the U.S. was up 18 percent in 2006 on the previous year, one of the fastest rates of growth of any of the U.S.'s source tourism markets. The U.S. ranks 7th in outbound destinations for Chinese and is the only destination outside Asia in the top 10. China's rapidly growing outbound travel markets, the huge potential for growth in the next five years, and the rapid growth in travel spending in China are all partially off-set by significant barriers limiting growth in travel to the U.S.

The U.S. and Canada are the only two major countries in the world who do not have Approved Destination Status (ADS). As a result, group leisure travel to the U.S. and Canada is not permitted out of China. Most outbound travel to the U.S. is business or official/governmental travel with a heavy leisure component. ADS is a political issue between the U.S. and China that is not expected to be resolved in the next five years. Nevertheless, arrivals to the U.S. from China are projected to continue increasing by 15–20 percent per year over the next five years. Once a country is granted Approved Destination Status (ADS), Chinese travel agents are able to sell group leisure package tours to such ADS countries. Without ADS, Chinese travel agents are only allowed to sell four types of travel to such countries: Business Travel, Official/ Government Travel, VFR (Visiting Friends and Relatives) and Educational Travel. Over 130 countries have been awarded ADS, including all of Europe, Australia, New Zealand, most of Africa, all of Asia, and many South American countries. An entry visa is required of all Chinese regardless of purpose of visit to the U.S. The visa application process is perceived as expensive ($100), time-consuming (10–30 days), inconvenient (requires all applicants to visit in person a U.S. consulate located in only five major cities in China), and risky (Chinese applicants have a greater-than-25 percent chance of being rejected), and requires a face to-face interview.

Compared with other destinations such as Japan, which last year waived all visa requirements for Chinese, U.S. Homeland Security visa policies for Chinese are tighter than any other country in the world. Some progress can be seen, however, with the U.S. Embassy in Beijing launching the Fast Tour Program on November 1, 2006. The Embassy added 25 visa interview slots only for U.S. tour groups organized by seven select agents. The Fast Tour Program is a trial program with limited impact thus far. The Program will be reevaluated in July 2007 to decide whether to expand from Beijing to other U.S. visa offices in China.



Korea is projected to become the 3rd largest overseas country in terms of visitor arrival to the United States after the U.K. and Japan within 3–5 years.

Korea

Background

Outbound travel from Korea contributed 11.6 million travelers overseas in 2006, a 15 percent growth over 2005 when Korea broke the 10 million mark for the first time ever. Leisure travel was 22.4 percent and is nearly four times larger than only seven years ago. Korean arrivals to the U.S. reached a record 758,000 in 2006, an 8 percent growth year-on-year. Korea sent 252,000 visitors to California in 2005 and is the top source country for the U.S. among the non-visa waiver program countries. Korea will likely be eligible for the visa waiver program in 2008/2009, resulting in significant potential for increased travel to the U.S. Within three to five years, Korea is projected to become the 3rd largest overseas country in terms of visitor arrivals to the U.S. after the U.K. and Japan.

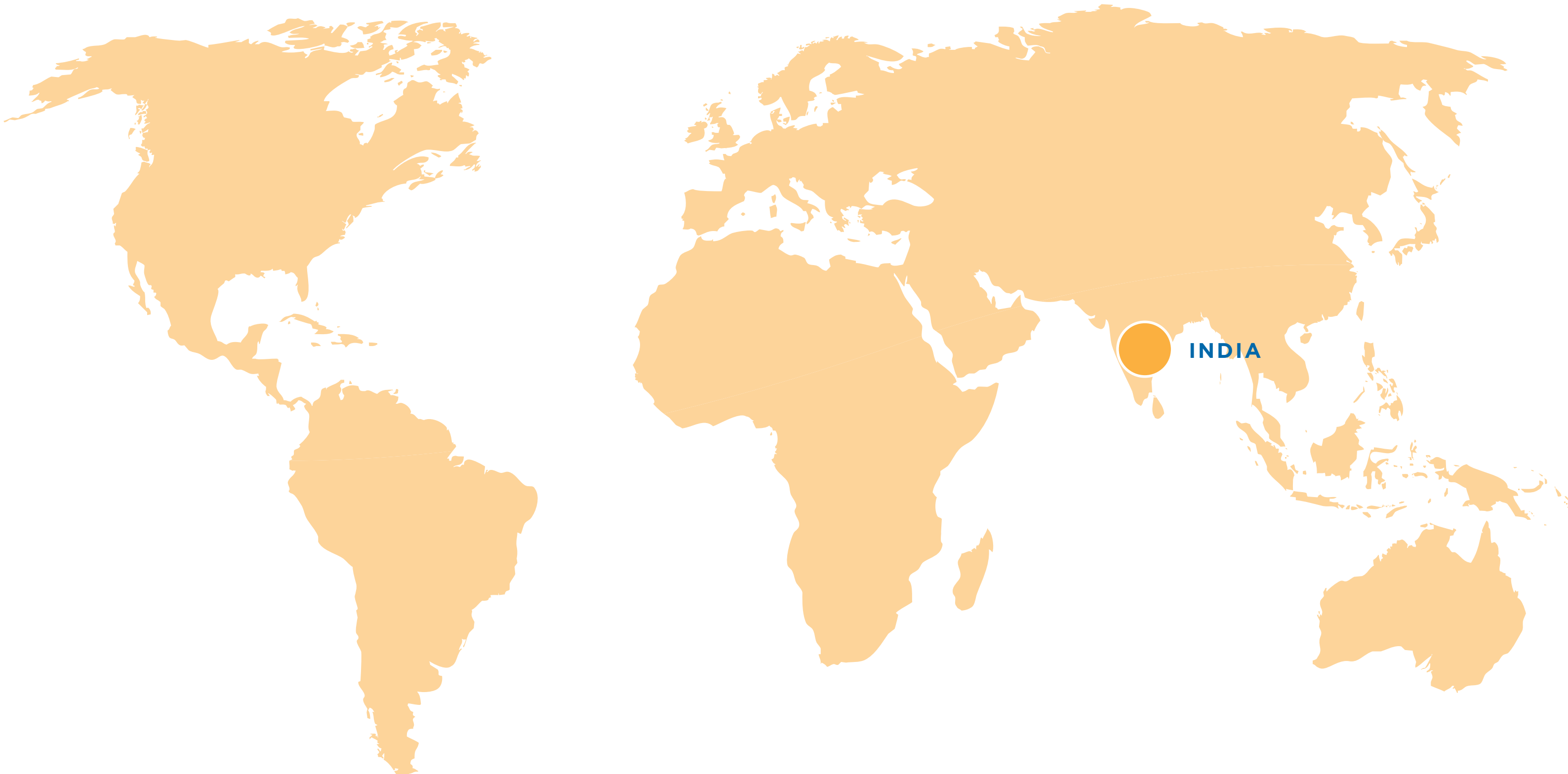
With the implementation of a five-day work week in Korea (from a historic six-day work week) and with the wide use of the Internet, more Korean travelers are choosing FIT tour products such as Airtel (air + hotel) and personalized tour itineraries. Consumers are shifting away from standardized group tour products with tour guides to customized individual tour patterns often using rental cars. Luxury FIT travelers who make their own tour itineraries, and travel for shopping, massage and gourmet dining, have a pronounced tendency to stay longer and travel more frequently.

Approximately 43 percent of Koreans who travel overseas are in their 30s and 40s with families.

Korean families in higher income brackets are more willing to travel to long-haul destinations.

Honeymoon Travel is one of the largest overseas travel segments for Koreans, with a high probability to travel repeatedly in the future. Approximately 3 million Koreans are golfers. The Korean golf market is the fastest growing in Asia, with an annual growth rate of roughly 60 percent. Wellness travel has gained popularity in Korea, with an increasing number of women in their 20s and 30s seeking spa and health-oriented holidays.

The image of California among travelers in Korea is positive, yet needs to be updated, suggesting that brand/image advertising will yield significant dividends. California, especially San Francisco and Los Angeles, has high awareness in Korea. Los Angeles is also well-known for Korea Town, the largest Korean community in the world outside of Korea. Most Korean visitors are heavily concentrated in the two gateways of San Francisco and Los Angeles, offering potential for other California regions targeting growth in the Korean market.



U.S. bound travel from India is expected to grow by 50 percent by 2010.

India

The CTTC will continue to monitor the long-haul outbound travel market from India, which by 2010 is expected to be 60 percent above 2005 levels, with U.S.-bound travel growing 50 percent. California, New York and New Jersey are the three states that stand to benefit the most, representing 82 percent of the total U.S. share of Indian travel. Currently, Indians travel to the U.S. primarily for business (51 percent) or to visit friends and relatives (52 percent). Visa requirements are an obstacle to leisure travel, but family connections in the U.S. and increased interest in overseas travel by the middle class and young tech-savvy Indians drive expanding demand.

The CTTC will evaluate opportunities for high-visibility cooperative promotions offering an entry into the Indian market, and prospects for developing relationships with the Indian travel trade on a case-by-case basis. (Emerging Tourism Markets, China and India, TIA)

california

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REV 1—MAY, 2007